SGI

ANNUAL REPORT 2006 | SASKATCHEWAN AUTO FUND

SASKATCHEWAN AUTO FUND

VISION

We will be the best customer-driven and affordable automobile insurance plan in Canada.

VALUES

— INTEGRITY —
Conducting ourselves with honesty, trust and fairness

— CARING —
Acting with empathy, courtesy and respect

— INNOVATION —
Implementing creative solutions to achieve our visions

SGI

2007-02368/

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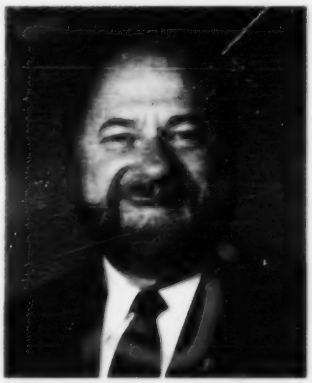
LETTER OF TRANSMITTAL



Regina, Saskatchewan
March, 2006

To His Honour,
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Your Honour,
I have the honour to submit herewith the annual report of Saskatchewan Auto Fund for the year ended December 31, 2006, including the financial statements in the form required by the Treasury Board and in accordance with *The Automobile Accident Insurance Act.*

I have the Honour to be, Sir,
Your obedient Servant,

Honourable Glenn Hagel
Minister Responsible for Saskatchewan Government Insurance

PRESIDENT'S MESSAGE

2006 WAS A LANDMARK YEAR FOR SGI.

Guided by our vision of being the best customer-driven and affordable insurance plan in Canada, we continued to provide our customers with quality products and services, while maintaining the lowest insurance rates in the country.

The Auto Fund enjoyed its second strongest year on record by posting a $101 million surplus in 2006, resulting in a $206 million balance in the Rate Stabilization Reserve at year end. In order to maintain this success and to continue moving forward as a company, the Auto Fund continued to pay special attention to our customers, our people and our business technologies. In 2006, all of our activities were tied to these key areas, further moving us toward our vision.

For over 60 years we have built our reputation on the belief that excellent customer service sets us apart in the insurance industry. We are always evaluating our products and looking for ways to improve and react to changes in the market. We're interested in not only meeting the needs of our customers, but exceeding them. We're proud of the fact that our customer value index is at an all-time high because ultimately, it is our vision to be customer driven.

We continued our pursuit of this goal in 2006 by delivering the lowest rates in Canada, offering outstanding customer service and continuing to be a national leader in road safety.

SGI has not raised automobile insurance rates since 2000. In fact, this is the sixth year that customers have enjoyed stable rates without any increase. We also put money back in our customers' pockets. Thanks to a surplus in the Auto Fund we were able to return over $44 million to over 500,000 vehicle owners in Saskatchewan in 2006 through an eight per cent rebate on the insurance premiums they paid for 2005 coverage. Our customers helped us attain this solid position and earned this rebate.

In addition, SGI continued to recognize the province's safest drivers – our platinum customers. Drivers earn safety points for every year they drive without causing a collision or earning a traffic conviction beginning Jan. 1, 2006. The points above +10 act as a cushion, protecting customers with long histories of safe driving from the impact of future incidents. We plan to continue to increase the number of safety points available each year to a maximum of +16.

In total, we returned $117 million to our customers in 2006 – $44 million through a rebate and another $73 million in safe driver discounts.

Still, in order to maintain the lowest rates in Canada, the Auto Fund needs the security of a sufficient Rate Stabilization Reserve.

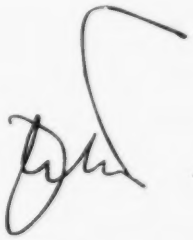
The reserve is needed for two main reasons: to meet policyholders' obligations for policies sold that expire after year end; and to cushion our customers from rate shock in the event of a downturn in financial results. That, in turn, allows us to provide our customers with stability in the Auto Fund coverage and rates.

Because the Auto Fund is in the strongest financial position in its history, SGI will be returning $100 million to our customers in 2007 through an almost 17 per cent rebate on their 2006 auto insurance premiums. SGI also has applied to the Saskatchewan Rate Review Panel for a general rate reduction of five per cent, which would include rate rebalancing. These initiatives are prime examples of how we're working to achieve our Auto Fund vision of being the best customer-driven and affordable insurance plan in Canada.

We are also deeply committed to providing value for our customers in other non-monetary ways. In 2006, the Auto Fund created three Customer Councils to share ideas on how we can improve our products and services; provided funding to the Sleep Disorder Centre in Saskatoon; partnered with Manitoba Public Insurance to deliver the photo card portion of their driver's licences; purchased a rollover simulator to further promote the use of seatbelts; partnered with local law enforcement on speed reader boards; launched changeable message signs on the Ring Road and Highway #1 in Regina; announced the first 10 winners of the Graduated Driver's Licensing incentive cash reward; and maintained a strong presence in Saskatchewan's North, including forging a relationship with the FSIN to train First Nations instructors to deliver Driving Without Impairment (DWI) courses on reserves. All of these new initiatives show that the Auto Fund is listening to its customers and providing added value to our products and services.

Last year, we initiated a major project that will revitalize the Auto Fund's computer system (which has been around since 1960) and offer improved service to our customers. I'm happy to say that the project is proceeding on budget and on schedule for completion in 2010. By finishing the analysis phase and gaining the SGI Board of Directors' approval, the detailed design, development and implementation of the new Auto Fund system has begun. The project's analysis phase, which started in February 2005, has analyzed and documented 509 current business processes, and then conceptually identified how each should work in the future. The new system started being built at the beginning of 2006. However, building the new system is no small feat with the project scheduled for completion in 2010. The system will be rolled out in five different releases over the next four years to better manage the workload and more effectively complete the project. We are eagerly awaiting the first release of the Auto Fund Redevelopment Project in April 2007 where we will introduce a new system for permits and other customer service applications.

In 2006, we achieved unparalleled success thanks to the hard work of SGI employees and our network of independent brokers and motor licence issuers. I am confident that their efforts will continue in 2007 as we strive to have the best automobile insurance plan in the country.



Jon Schubert
President and CEO

RATES AND REBATE

RATES

Saskatchewan customers continued to benefit from the lowest auto insurance rates in Canada in 2006.

Under the Safe Driver Recognition and Business Recognition programs, most Saskatchewan motorists pay even less. Since 2002, safe drivers in Saskatchewan have received over $200 million in discounts.

In total, safe drivers earned $73 million in discounts in 2006.

REBATE

Not only has SGI not raised auto insurance rates for the past six years, we also put money back in our customers' pockets with an eight per cent rebate to Saskatchewan vehicle owners. The Auto Fund had a very strong year financially, thanks to safer driving by Saskatchewan motorists which meant fewer collisions and lower claim costs. The Auto Fund had a $101 million surplus – $44 million of which we returned to about 520,000 customers through this rebate. The remaining $57 million was added to the Rate Stabilization Reserve, allowing us to provide our customers with stability in the Auto Fund's coverage and rates.

The rebate applied to all vehicles, and was calculated on vehicle insurance premiums prior to any discounts earned through the Safe Driver Recognition and Business Recognition programs.

The rebate is another example of how we are working to achieve our vision of being the best customer-driven and affordable insurance plan in Canada. The rebate is an added benefit to our customers, who already pay the lowest auto insurance rates in the country. Our customers helped us attain this solid position and earned this rebate.

In total, we returned $117 million to our customers in 2006 – $44 million through this rebate and another $73 million in safe driving discounts.

HOW DO WE KEEP OUR RATES LOW?

The Saskatchewan Auto Fund is an insurance program that operates on a self-sustaining basis over time. That means, the Auto Fund does not need to generate a profit, so our customers pay even less for auto insurance.

SGI needs the security of a sufficient Rate Stabilization Reserve for two main reasons: to meet policyholder obligations for policies sold that expire after year-end; and to cover all claims costs including those costs which could result from catastrophic event. That, in turn, allows us to provide our customers with stability in the Auto Fund's coverage and rates.

Another factor in our low rates is the Auto Fund's philosophy that all drivers should be treated equally unless their driving record shows they are a greater risk for causing a collision. SGI doesn't use a driver's age, gender or where they live to determine insurance rates.

In dollars and cents, that helps SGI to have among the lowest administration costs of any insurance company in the country – again meaning our customers pay less. On average over the last five years, the Auto Fund has returned over 90 cents of each premium dollar to customers in the form of claim payments, traffic safety programs and rebates.

TRAFFIC SAFETY

SGI is always looking at new and innovative ways to improve traffic safety in the province.

Paying special attention to such issues as traffic safety, crime prevention and rehabilitation programs, enabled SGI to make a difference in the community in 2006 and to ensure we continue with our vision of being the best automobile insurance plan in Canada.

SGI continued to develop our profile with the province's Aboriginal peoples by visiting First Nations communities to promote traffic safety and injury prevention. We purchased a rollover simulator to drive home the message of how seatbelts save lives and we furthered our commitment to educating the public on the importance of road safety through a variety of traffic safety initiatives.

In 2006, SGI conducted eight pilot DWI courses on First Nations reserves in the province. As well, SGI trained staff to provide drinking and driving information sessions in Stony Rapids while providing driver testing.

For over 60 years, SGI has taken a lead in the area of road safety programs, education and legislation. The specific safety issues that SGI focuses on are determined by an ongoing review of traffic safety statistics. Most programs fall into five key areas: impaired driving, new drivers, seatbelt use, high-risk drivers and intersection safety.

In 2006, new safety initiatives were introduced such as amendments to *The Traffic Safety Act*, which created stiffer penalties for impaired drivers. In addition, SGI installed changeable message signs on Regina's Ring Road and the Highway #1 Bypass, assisted with the purchase of intelligent speed reader boards for every municipal police service in the province and expanded the Enforcement Overdrive program, targeting impaired drivers, to Moose Jaw.

As the first steps in the development of an Aging Driver Strategy, SGI undertook a series of consultations across the province.

SGI recognizes that one of the key strategies to help the Auto Fund become the best customer-driven and affordable insurance plan in Canada pertains to road safety. As such, the Auto Fund has developed a long-term traffic safety strategy to further help in saving lives, reducing injuries and lowering claims costs.

TRAFFIC SAFETY

Goals of the long-term traffic safety strategy are:

Fatalities:

30 per cent reduction in the number of fatalities by 2010

Injuries:

20 per cent reduction in the number of injuries by 2010

Property-Damage-Only (PDO):

20 per cent reduction in the number of PDOs by 2010

SGI will work towards meeting those objectives through education, enforcement, legislation and innovative solutions. The key areas of focus are: impaired driving, occupant protection, intersection safety, roadway-based solutions, speed management and human factors.

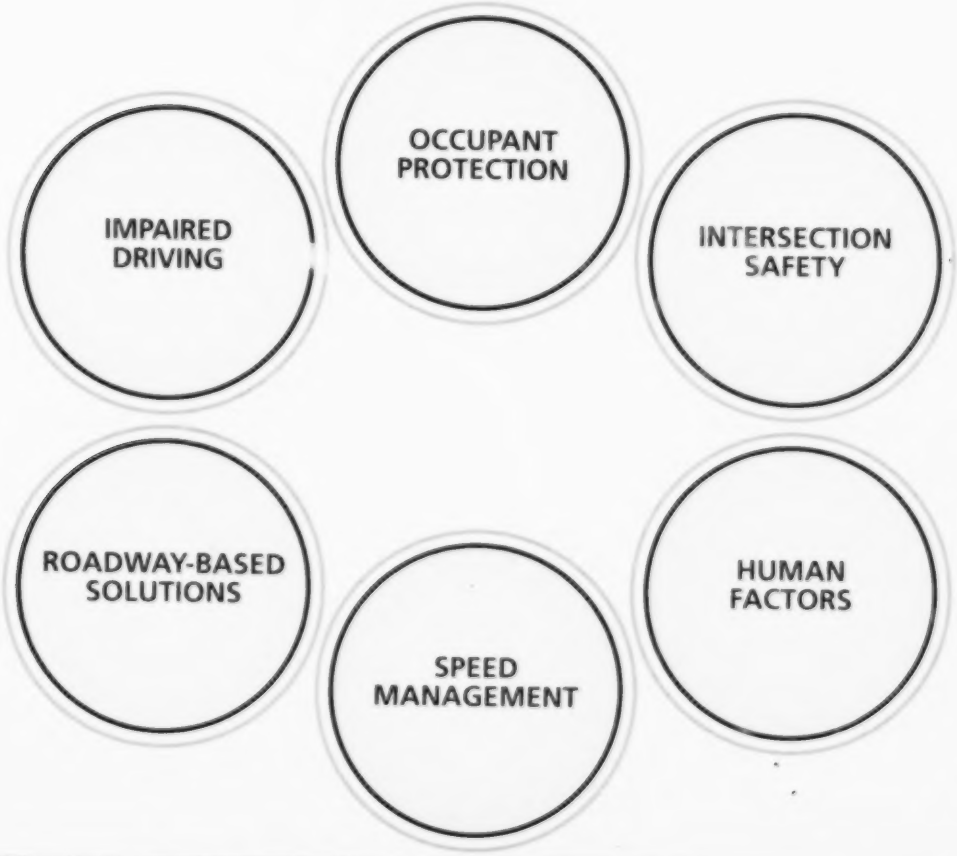
TARGETS

Fatalities – 30% reduction in the number of fatalities by 2010 (2008 - 2010 compared to 1996 - 2001 period)

Injuries – 20% reduction in the number of injuries by 2010 (2008 - 2010 compared to 1996 - 2001 period)

PDOs – 20 % reduction in the number of PDOs by 2010 (2008 - 2010 compared to 2003 - 2004 period)

STRATEGIES



SGI and the RCMP are touring the rollover simulator around the province, concentrating on rural areas.

AMENDMENTS TO *THE TRAFFIC SAFETY ACT*

SGI furthered its commitment to making Saskatchewan roads safer by introducing amendments to *The Traffic Safety Act* in 2006. *The Traffic Safety Act* is the amalgamation of *The Highway Traffic Act, The Vehicle Administration Act* and *The Motor Carrier Act* and was brought into force in July 2006.

The most significant amendment strengthened the suspension for impaired drivers by establishing an immediate 24-hour licence suspension for drivers who fail a standard field sobriety test (SFST) due to alcohol or drug impairment. Drivers who refuse an SFST also face an immediate 24-hour suspension of their driver's licence.

The SFST is considered one of the best methods of identifying impaired drivers and it is an additional tool to help law enforcement to take more impaired drivers off the road. Impaired driving is the leading contributing factor in traffic fatalities in this province.

Another significant amendment to the Act deals with low blood alcohol content (BAC) drinking drivers. It imposes a 15-day driver's licence suspension after a second .04 BAC violation within a five-year period.

ROLLOVER SIMULATOR

SGI continued to drive home the message of how seatbelts save lives with its newest traffic safety tool, the rollover simulator.

Most fatal crashes where seatbelts have not been used are single vehicle collisions, particularly rollovers. The rollover simulator graphically shows what can happen when a vehicle occupant doesn't buckle up.

The rollover simulator is a cab of a vehicle with a motorized encasement mounted on top. The encasement rolls the cab, simulating a rollover incident. Straw-filled dummies are used to show the effectiveness of seatbelts by simulating a rollover with them belted and then with them unbelted.

SGI has partnered with the RCMP to take the simulator on the road to rural high schools, First Nations communities, trade fairs, malls and other community events as part of its traffic safety education program.

SLOW TO 60 KM/H WHEN PASSING TOW TRUCKS

Effective July 1, 2006, motorists in Saskatchewan are now required by law to slow to 60 km/h when passing tow trucks stopped on the side of the highway with their amber lights flashing.

This is in line with the existing law requiring motorists to slow to 60 km/h for emergency vehicles stopped on the highway, and when passing highway workers. Fines for all of these offences start at $140.

SGI also ran radio and billboard ads in an effort to make motorists aware of the new law, and new highway signs were posted around the province reminding drivers to slow to 60 km/h when passing tow trucks and emergency vehicles.

ENFORCEMENT OVERDRIVE PROGRAM EXPANDS

The fight against drinking and driving is one of SGI's top priorities. The more check stops police have, the more impaired drivers are taken off the road. It also heightens the perception for motorists that they will be caught if they drink and drive.

Tens of thousands of vehicles are checked annually throughout the province. As a result of these check stops, a significant number of impaired drivers are taken off the road and charges are laid.

In 2006, SGI expanded the Enforcement Overdrive program to include the Moose Jaw Police Service and RCMP in the province.

The Enforcement Overdrive program allows police to hold additional roadside check stops for impaired driving, with SGI funding the associated staffing costs. The program already operates in Regina, Saskatoon, Prince Albert, Estevan and RCMP jurisdictions.

GDL INCENTIVE

Ten new drivers each received a cheque for $1,000 as a reward for completing the new Graduated Driver's Licensing (GDL) program without any at-fault collisions, traffic convictions or suspensions. The winners were:

- Glenna Coleman, Regina
- Deanna Dueck, Wapella
- Crystal Du Hamel, Carlyle
- Brennan Marcoux, Viscount
- Kaitlin Cyca, Saskatoon
- Renee Wenc, Martensville
- Quinn Lessard, Hudson Bay
- Jane Jacoby, Regina
- Tammy Halkett, Little Red River Reserve, Christopher Lake
- Sherry Finley, Saskatoon

The 10 winners were randomly chosen from the 6,155 individuals who successfully completed the Graduated Driver's Licensing program without any at-fault collisions, traffic convictions or suspensions by August 31, 2006.

The Graduated Driver's Licensing program was implemented in September 2005 and is designed to improve road safety by exposing new drivers to incremental risks as they gain more experience in the driving environment.

The incentive will continue for the second year of the GDL program with a cut-off date for the next draw being August 31, 2007.

SGI PROVIDES FUNDING TO SLEEP DISORDERS CENTRE

SGI furthered its commitment to traffic safety by providing almost $188,000 in funding to the Sleep Disorders Centre at Royal University Hospital in Saskatoon.

The centre serves to diagnose and treat patients with sleep disorders. The most common disorder treated at the centre is sleep apnea, which causes excessive daytime sleepiness.

The additional funding will improve access to the Saskatoon Sleep Disorders Centre for those individuals most at risk and thus expedite the diagnoses and management of obstructive sleep apnea of Saskatchewan drivers.

The funding will allow the Health Region to increase the number of clients it can assess on a weekly basis from 24 to 32 – meaning almost 400 additional assessments annually.

CHANGEABLE MESSAGE SIGNS ON REGINA ROADWAYS

Motorists are now alerted of poor driving conditions on Regina's Ring Road and Highway #1 Bypass thanks to new message boards stationed beside the roadway in four different locations.

The boards, which are remotely activated, have changeable messages that can warn drivers of potential hazards such as icy conditions, poor visibility or traffic delays due to collisions or roadwork.

The project is a joint partnership between SGI, Saskatchewan Highways and Transportation and the City of Regina.

The City is responsible for operating the message boards, and will judge the need to activate the boards based on reports from road crews, highway workers, Regina Police Service and other Emergency Services personnel. The message boards will remain blank for the majority of the time they aren't needed, in order to ensure motorists don't become acclimatized to them. During the summer when driving conditions are good, the boards will occasionally be used to display other safety messages.

TRAFFIC SAFETY

Youth leaders and teachers from Humboldt Collegiate, Carpenter High School in Meadow Lake, Mount Royal Collegiate in Saskatoon and John Paul Collegiate in North Battleford participated in the SMARTRISK training at Queen's House in Saskatoon.

NO REGRETS PROGRAM LAUNCHED

SGI joined forces with SMARTRISK in 2006 to help reduce unintentional fatalities and injuries among our province's youth by introducing the No Regrets program to Saskatchewan schools.

SMARTRISK is a national, non-profit organization with an established track record of designing and delivering injury prevention initiatives to youth. The SMARTRISK No Regrets program seeks to harness the power of youth by motivating youth leaders to realize they can help to reduce the tragic loss of life and injuries sustained by their generation. No Regrets has five key messages – Buckle Up, Look First, Wear the Gear, Get Trained and Drive Sober.

Youth leaders, along with staff advisors, from Vanier Collegiate, Moose Jaw; Assiniboia Composite High School, Assiniboia; and Balcarres Community School, Balcarres were trained to develop and deliver their own school-wide injury prevention programs. Students from Humboldt Collegiate, Humboldt; Carpenter High School, Meadow Lake; Mount Royal Collegiate, Saskatoon and John Paul Collegiate, North Battleford have already received the training. Additional schools are in discussions to join the program.

During the 2003-2004 school year, two Saskatchewan schools – A.E. Peacock High School in Moose Jaw and Holy Rosary Catholic High School in Lloydminster – were involved in the pilot of the No Regrets program. An extensive evaluation of the pilot program proved the No Regrets program was successful in altering behaviour, attitude and perception toward dangerous situations.

SPEED READER BOARDS

SGI partnered with the Saskatchewan Association of Chiefs of Police (SACP) to provide intelligent speed reader boards to every municipal police service in the province, as well as the RCMP.

The boards display the speed of oncoming vehicles and come equipped with changeable message boards that can be used to communicate safety messages to motorists. As well, they collect data regarding the speed of passing vehicles, which can be used to determine where enforcement or other safety remedies may be needed at a certain location. Speed management is a road safety priority for SGI. Excessive speeding and driving too fast for conditions result in an increased severity of collisions and contribute to an average of 45 deaths and over 1,000 injuries each year.

SGI IN THE COMMUNITY

SGI was on campus in 2006 reminding young people how important it is to plan ahead for a designated driver.

At SGI, we know it is important to give back to the communities in which we do business.

Through sponsorships, volunteerism and donations-in-kind, SGI is proud to give back to the people of Saskatchewan.

SGI AND THE VANIER CUP

This year's Vanier Cup was held November 25 at Saskatoon's Griffiths Stadium and SGI was there as the Official Safety Sponsor.

Vanier Fest, a three-day event leading to the Vanier Cup, featured continuous entertainment, big-screen TVs, a bar and live entertainment from The Road Hammers and Great Big Sea. As the Vanier Cup's Official Safety Sponsor, SGI provided a complimentary safe ride bus service from Vanier Fest to key locations throughout the city.

SGI was also on campus in 2006 at all of Saskatchewan's post secondary institutions reminding young people how important it is to plan ahead for a designated driver. It continues to be a great opportunity for us to reach our target audience each and every day.

SGI was in thousands of book bags with a safety message in the student agenda. SGI also has a presence at various campus sporting events, promoting our drinking and driving messages.

SGI values higher education and recognizes that post-secondary education is important and often essential for today's youth. That's why SGI provides various scholarship programs for Saskatchewan students who are studying in a field related to SGI business.

2006 TIM HORTONS BRIER

SGI was a proud sponsor of the 2006 Tim Hortons Brier. SGI had the opportunity to promote drinking and not driving at the event through both the Brier Patch and Purple Heart Lounge, where staff volunteers encouraged patrons to "Always Plan a Safe Ride Home."

SGI and the Brier Host Committee also took part in a program that gave Grades 6 to 8 elementary school students and high school curling teams in the Regina Public School Division, Regina Catholic Separate School Division and the Prairie Valley School Division, a chance to learn more about the official sport of Saskatchewan and the Brier.

SGI IN THE COMMUNITY

SGI and the host committee invited Grades 6 to 8 elementary school students in the three school divisions to create a mural depicting "Curling in Saskatchewan" or a safety focused mural displaying "Parti Gras – Keep it Safe."

Murals were judged and six classes were offered the opportunity to attend the Brier. All murals submitted were being displayed at the Brier venue and viewed by curling fans from all over Canada.

High school students in these three school divisions were also offered an opportunity to learn more about the sport of curling during Brier week. SGI and the host committee invited approximately 200 high school students and their curling coaches to on-ice curling clinics on at the Caledonian Curling Club.

SGI SIGNAGE AT REGINA EXHIBITION PARK AND CREDIT UNION CENTRE

SGI signed up with Regina Exhibition Park and Saskatoon's Credit Union Centre to promote drinking and not driving.

Thousands flock to these venues for concerts and sporting events and alcohol is often served. By placing back-lit sponsor boards in both venues, SGI reminded patrons to "Always Plan a Safe Ride Home." SGI's sponsorship of Regina Exhibition Park also allows us to promote drinking and not driving messages at three major events: Taste of Spring, Taste of Regina and Buffalo Days.

SAFE RIDE TO THE STONES

SGI made the Rolling Stones experience even sweeter by funding the "Safe Ride to the Stones" free shuttle service when the band visited Regina in October.

SGI invested $25,000, in partnership with Regina Transit, to provide free bus service in order to encourage concert-goers to plan a safe ride home. It is estimated that over 20,000 people used the service – almost one quarter of the people attending the two shows.

OTHER INITIATIVES

CUSTOMER COUNCILS

SGI piloted a new tool in 2006 to collect input directly from our customers. Three Customer Councils were established – one representing customers from the general public, one representing commercial customers and the third made up of SGI employees who work directly with our customers. By the end of September, each of the three Customer Council groups had met twice to share their ideas on how SGI can improve its products and services.

MPI PARTNERSHIP

In the fall of 2006, SGI began producing the photo card portion of the Manitoba driver's licence. The resulting economies of scale will reduce the cost of printing a photo ID card in each province to $1.62, leading to a 19 per cent reduction in cost for Saskatchewan and a saving of nearly 50 per cent per card for Manitoba.

Entering into this partnership with Manitoba saves money now and is the first step toward working together in the future. There is potential savings of $350,000 to $400,000 over the agreement's life span through sharing fixed costs associated with potential future system upgrades in the production of photo ID cards.

SGI introduced the use of a digitized photo card as part of the Saskatchewan driver's licence in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of Saskatchewan Government Insurance (SGI) as the administrator of the Saskatchewan Auto Fund and reflects events known to SGI to February 28, 2007. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on SGI's website at www.sgi.sk.ca under About SGI. The Board of Directors approved this MD&A at its meeting on March 1, 2007 after a recommendation to approve was put forth by the Audit and Finance Committee.

OVERVIEW

The MD&A is structured to provide users of the Saskatchewan Auto Fund (denoted as the Auto Fund, or the Fund) financial statements with insight into the Auto Fund and the environment in which it operates. This section outlines strategies and the capability to execute the strategies, key performance drivers, 2006 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2007. The information contained in the MD&A should be read in conjunction with the financial statements, and notes to the financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

The following table of contents provides a quick reference to the main sections within this MD&A:

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THE SASKATCHEWAN AUTO FUND

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province. Less than 10% of Saskatchewan licensed vehicles carried any insurance and there was a need for a compensation plan for persons injured in accidents.

In 1946, the government established basic compulsory automobile coverage for Saskatchewan residents under *The Automobile Accident Insurance Act* (AAIA). The Saskatchewan Auto Fund was established effective January 1, 1984 by an amendment to the AAIA, which separated the property and casualty insurance operations of SGI and the compulsory Auto Fund. The administrator of the Saskatchewan Auto Fund is SGI. The role of SGI, as the administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan based on the legislative requirements contained in the AAIA.

The Auto Fund, as the compulsory automobile insurance program for Saskatchewan residents, provides vehicle registrations, driver's licences, the basic minimum liability insurance required to operate a vehicle and coverage for damage to or loss of an insured's vehicle, subject to a deductible. The liability insurance coverage provides for a specific amount to cover property damage

and/or injuries caused to another person. The Auto Fund also includes injury coverage that provides an option to choose between No Fault or Tort Coverage. This basic insurance package allows a currently licensed vehicle to operate legally anywhere in Canada or the United States of America.

The Auto Fund is governed by legislation contained in the AAIA, *The Traffic Safety Act*, *The All Terrain Vehicles Act* and *The Snowmobile Act* (the Acts) along with the related regulations created by these acts. The Auto Fund is also subject to legislation contained in *The Crown Corporations Act, 1993* and Part IX of *The Insurance Companies Act* (Canada) regarding the investments of the Auto Fund. It is subject to provincial privacy and access to information legislation contained in *The Freedom of Information and Protection of Privacy Act* and *The Health Information Protection Act*. It also has administrative, enforcement and other related duties under other provincial acts and regulations and under the federal Criminal Code.

The Auto Fund does not receive money from, nor pay dividends to, the Province of Saskatchewan, SGI or Crown Investments Corporation of Saskatchewan (CIC). CIC is SGI's parent corporation. The Auto Fund is operated on a self-sustaining basis viewed over a long-term timeframe. Any annual financial excess or deficiencies of the Auto Fund are recorded in its Rate Stabilization Reserve (RSR). The RSR is held on behalf of Saskatchewan's motoring public and cannot be used for any other purpose by the government or the administrator.

The financial results of the Auto Fund are not included in the consolidated financial statements of SGI nor CIC's consolidated financial statements, as the Auto Fund is a fund of the Province of Saskatchewan. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements using the modified equity accounting method as permitted by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

The Auto Fund at December 31, 2006 has 422 motor licence issuers[1] in 318 communities across Saskatchewan. It also operates 21 claims centres and five salvage centres in 13 communities across the province along with seven branch licence issuing offices. The Auto Fund business operation is restricted to the Province of Saskatchewan and is operated from SGI's head office located in Regina, Saskatchewan.

The Auto Fund's annual report is available on SGI's website at www.sgi.sk.ca. Navigate to About SGI and then click on Financial Reports.

THE ENVIRONMENT THE AUTO FUND OPERATES IN

The Auto Fund's customers are Saskatchewan residents as it provides all residents with automobile injury coverage with an option to choose between a No Fault or Tort product. As the sole provider of vehicle and driver's licensing in Saskatchewan, the Auto Fund operates based on legislative powers granted in the Acts. The Auto Fund is required to submit vehicle insurance rate changes to the Saskatchewan Rate Review Panel (SRRP) whose mandate is to evaluate the rate change and to provide an opinion on the fairness and reasonableness of the requested change. SRRP does not have the authority to implement any of its recommendations; the final decision to approve, change or reject rate changes is at the discretion of the provincial government.

The Auto Fund provides vehicle registrations, driver's licences and related services to approximately 681,000 drivers (for approximately 900,000 vehicles) in Saskatchewan. Business partners range from independent motor licence issuers, autobody

[1] This and other terms are defined in the Glossary of Terms beginning on page 67.

shops and law enforcement agencies, to health care providers. These business partners are involved in different aspects of the operations of the Auto Fund from licensing, road safety and repair of damaged vehicles, to the provision of medical care and rehabilitative services to those injured in motor vehicle collisions.

The Auto Fund's philosophy is that all drivers are treated equally unless their driving record shows they are a greater risk for causing a collision. It does not use a driver's age, gender or where they live to determine a vehicle's insurance premium or the fee for a driver's licence. It has successfully maintained this philosophy while offering Saskatchewan customers low rates, proving its merit.

While it has been successful at offering the residents of Saskatchewan low rates, the Auto Fund does face challenges. Claim costs represent over 83% of the Auto Fund's costs in 2006. Over the last 10 years, damage claim costs have increased at an average annual rate of 4.2%, while personal injury has grown at approximately 2.8% annually.

On the damage side, new and advanced technology means vehicles are more expensive to repair. New vehicles also cost more to repair than older vehicles, and parts prices along with labour rates continue to rise. As a result, claim costs continue to climb as repair costs outpace inflation.

Injury costs also rise on a yearly basis as No Fault injury benefits are indexed to inflation each year. As well, tort and out-of-province liability claims, which are generally based on court awards, increase at a rate significantly higher than inflation.

The Auto Fund has not implemented a general rate increase since 2000, and since that time has implemented the Safe Driver Recognition (SDR) and Business Recognition programs. The SDR program places all drivers on a safety rating scale based on their driving history. The Business Recognition program rewards businesses that maintain good loss experience with discounts on their vehicle insurance. The initial maximum discount of 7% on the SDR program has steadily increased since the program began in 2002 and is currently 20%. The maximum discount available in the Business Recognition program is 10%. During 2006, the SDR program was further improved by recognizing "Platinum" customers, the safest drivers. While the SDR rates have not changed, drivers are able to earn a safety rating in excess of +10, building a cushion that will lessen the impact if the driver is responsible for a traffic incident in the future. The cost to the Auto Fund in the form of lower premium revenue from these discounts was $73,089,000 for 2006 while in 2005, it was $71,634,000. The Auto Fund is expecting the total discount provided under both programs to be approximately $83,000,000 in 2007.

STRATEGIC DIRECTION

In late 2005, the Auto Fund updated its vision statement to reflect the Corporation's new strategic direction. While the vision changed for 2006, the values under which the Corporation operates have not. The Auto Fund's Vision and Values are as follows:

Vision

We will be the best customer-driven and affordable automobile insurance plan in Canada.

Values

Integrity	Conducting ourselves with honesty, trust and fairness
Caring	Acting with empathy, courtesy and respect
Innovation	Implementing creative solutions to achieve our vision

CORPORATE STRATEGY

To guide the Auto Fund toward its vision, the main areas of strategic focus during 2006 related to:

- Our Customer;
- Our People; and,
- Business Technologies

These areas are crucial for the Auto Fund to achieve its vision. Within these three areas, there are specific strategic initiatives and key targets to measure performance towards being a customer-driven insurance program that anticipates the expectations of its customers while maintaining affordability. The Auto Fund uses a Balanced Scorecard approach to monitor its performance and results. The objectives of a Balanced Scorecard are to provide a balanced evaluation of key operational and financial results, activities and achievements with both a short and long-term focus. The following discusses key initiatives in each of these areas of strategic focus as well as the related key performance indicators from the Balanced Scorecard.

CUSTOMER

The Auto Fund's success is measured by being highly valued by its customers, the motoring public of Saskatchewan. It has developed certain key goals to achieve this: delivering the lowest average rates in Canada, offering outstanding customer service and working to reduce injuries and fatalities in motor vehicle crashes.

The Auto Fund has been successful in continuing to provide Saskatchewan customers with the lowest auto insurance rates in Canada. There are many aspects that the Auto Fund focuses on to ensure its rates stay among the lowest in Canada. Control of costs is one area of focus and as a result, the Auto Fund has been able to maintain lower administration costs compared to its peers in the insurance industry, allowing customers to pay less for their insurance. The Auto Fund has established a Balanced Scorecard target to monitor administration costs per insured vehicle compared to Manitoba Public Insurance and the Insurance Corporation of British Columbia, two other government-owned insurers in Canada.

Investment earnings also contribute to reduced rates for Saskatchewan customers. A statement of investment policy and objectives, approved by the SGI Board of Directors, is used by the investment manager to invest any excess funds of the Auto Fund. The investment policy allows for a diversified portfolio that can shift dependent on trend movement in the capital markets while maximizing long-term returns. A Balanced Scorecard target has been established to achieve a return that outperforms an investment policy benchmark based on a surplus return over that achieved by various capital market indices. The investment policy is discussed further in this MD&A within the ***Risk Management*** section.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test to monitor the adequacy of the RSR.

Being highly valued by our customers means doing more than having low rates. It means anticipating and exceeding customers' expectations. In 2006, we established three Customer Councils – one representing customers from the general public, one representing commercial customers and the third consisting of SGI employees who work directly with Auto Fund customers. Each council met at least twice during 2006 to provide ideas on how to improve the Auto Fund's products and services. This has proven to be a valuable tool for management of the Auto Fund and will continue in 2007.

One of the key strategies to help the Auto Fund become the best customer-driven and affordable insurance plan in Canada pertains to road safety. Customers value the Auto Fund for its role in promoting road safety in the province. The Auto Fund is always looking at new and innovative ways to improve road safety. Over the years, SGI has evolved into a national leader in the area of road safety programs, education and legislation. During 2006 a new five-year traffic safety strategy was developed to further help in saving lives, reducing injuries and lowering claim costs. The new strategy will be in place for 2007 and focuses on six key areas – Impaired Driving, Occupant Protection, Intersection Safety, Speed Management, Roadway-Based Solutions and Human Factors.

The following table summarizes the key performance indicators in the Balanced Scorecard to monitor the above initiatives:

Legend: ● **achieved** ❍ **did not achieve**

MEASURE	2006 TARGET	2006 RESULTS	2007 TARGET
Cross Canada rate comparison	Lowest average private vehicle rates in Canada	● Saskatchewan has the lowest private vehicle rates in Canada	Lowest average private vehicle rates in Canada
Customer Value Index Survey (out of 5)	3.55	● 3.76	3.60
Claims customer service survey	91% satisfaction rating	❍ 89% satisfaction rating	91% satisfaction rating
Investment portfolio return	Outperform the investment policy benchmark return	● 8.6% actual return versus benchmark return of 8.0%	Outperform the investment policy benchmark return
Maintain an adequate RSR	Minimum Capital Test target of between 100% to 125%	❍ 179%	Minimum Capital Test target of between 100% to 125%
Reduce fatalities and serious injuries due to motor vehicle crashes	To be 20% lower than the 1996-2001 average number of fatalities and serious injuries	❍ 14% reduction in fatalities and 34% reduction in serious injuries	Implement 2007 approved elements of strategy

CROSS-CANADA RATE COMPARISON

SGI's Cross-Canada rate comparison is performed by considering Saskatchewan's 34 most popular vehicles and comparing to rates obtained from the public insurers in British Columbia, Manitoba and Quebec. For the private insurance provinces, quotes are obtained from Compu-Quote Inc., an independent rate quotation service that obtains information directly from private auto insurers across Canada. The rate comparison is subject to an audit by an independent accounting firm.

In 2006, the rate comparison concluded that Auto Fund customers benefited from the lowest auto insurance rates in Canada. The Auto Fund has seen no rate increases for six years, and in fact, overall, rates have actually decreased with the implementation of the Safe Driver and Business Recognition discount programs. As well, the Auto Fund has taken forward a proposal to the Saskatchewan Rate Review Panel for a 5% general rate reduction with rate rebalancing, which if approved would be effective July 1, 2007. For 2007, the Auto Fund's target is again to have the lowest average private vehicle rates in Canada.

ADMINISTRATIVE COSTS PER INSURED VEHICLE

This ratio is monitored to ensure that administrative expenses are being controlled so that more of each premium dollar can be used to cover customer claims and keep rates low. Based on the Auto Fund's 2006 financial statements, administrative costs per insured vehicle increased by $3 from $98 to $101, which is lower than the Insurance Corporation of British Columbia's (ICBC) and Manitoba Public Insurance's (MPI) administrative costs per insured vehicle at December 31, 2005. The Auto Fund has been lower than these two insurers in each of the past five years. At the time of writing this MD&A, details regarding ICBC and MPI's costs for 2006 are not available.

Our target for 2007 continues for the Auto Fund's administrative costs per insured vehicle to be the lowest amongst the three public insurers in Canada, directly supporting the Auto Fund's vision statement for the Auto Fund to be the best customer-driven and affordable automobile insurance plan in Canada.

INVESTMENT PORTFOLIO RETURN

The Auto Fund's primary objective is to achieve a market value based rate of return superior to the rate of return earned on a benchmark portfolio. The benchmark portfolio return is based on capital market index returns weighted to be consistent with the Auto Fund's asset mix. The rate of return is measured over a four-year cycle. This longer-term measure has greater relevance and lower volatility than a one-year measurement. Over the period 2003 to 2006, the portfolio averaged an annual return of 8.6%, exceeding the benchmark portfolio average annual return of 8.0% by 0.6%.

MAINTAIN AN ADEQUATE RSR

The Auto Fund establishes its target capital level based on a common industry measurement of capital adequacy known as the Minimum Capital Test (MCT). The target is a range of 100% – 125% of the MCT, which equates to approximately $85 million to $123 million at December 31, 2006. The balance in the RSR at December 31, 2006 was $205,601,000, which is above its target range. This is a result of strong financial results in 2006, which are discussed in the section *2006 Financial Results*.

Strong financial results for 2005 allowed the Auto Fund to pay an 8% rebate to customers who were policyholders in 2005, which equalled approximately $44 million. As the RSR at December 31, 2006 continues to be above the target MCT range, the Auto Fund was able to announce a 16.8% rebate to its customers to be paid in the spring of 2007. The rebate will return approximately $100 million to Auto Fund customers and bring the RSR balance to within the target MCT range in 2007.

CUSTOMER VALUE INDEX

The customer value index (CVI) is a comprehensive measure for tracking customer satisfaction. The CVI tracks seven key areas of importance – overall management; listening to the concerns of customers; having well trained, experienced staff; educating and informing the public; behaving in an ethical, responsible manner; maintaining low rates relative to other parts of Canada; and, providing high standards of customer service. Based on the results of regular customer surveys, the CVI takes these seven areas of importance and calculates an overall score for the Auto Fund out of five. The Auto Fund has exceeded its goal in 2006, achieving 3.76 out of five, compared to its target of 3.55. The target for 2007 is 3.60 out of five.

CLAIMS CUSTOMER SURVEY

The Corporation conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target is a 91% approval rating from claims customers. The latest survey results indicate a 89% satisfaction level, consistent with 2005. While this is a strong satisfaction level, it is still slightly below our target of 91%. The target for 2007 remains a 91% satisfaction level and the Corporation is working hard to achieve it.

REDUCING FATALITIES AND SERIOUS INJURIES

Our traffic safety goals are simple and clear – prevent traffic deaths and prevent serious injuries due to traffic collisions. Our goal is to reduce the number of traffic deaths and serious injuries due to traffic collisions by 20% each compared to the average number of traffic deaths and serious injuries in the period 1996 to 2001. For 2006, the number of fatalities are 14% less than the 1996 to 2001 average (2005 – 8%) and the number of serious injuries are 34% (2005 – 38%) less. There has been a significant improvement during 2006 in the number of fatalities compared to 2005, but slightly higher serious injuries. For 2007, the Auto Fund will be focussing on implementing the approved elements of its new long-term traffic safety strategy.

PEOPLE

The Auto Fund's People strategies for 2006 focused on three main areas: becoming a high performance organization, employee engagement, and youth and Aboriginal employees.

HIGH PERFORMANCE ORGANIZATION

SGI places a great deal of importance on the continual education and training of its employees. Both technical and customer service training are emphasized. Training is evaluated on an ongoing basis to ensure it provides employees with the enhanced skills required for them to help in achieving the Auto Fund's vision. The training objectives for 2006 were met, with 100% of new front-line staff trained, as well $1,219 per employee was spent on training compared to the target of $500.

EMPLOYEE ENGAGEMENT

During 2006, the President's Employee Engagement Team (PEET) was developed to establish long-term goals for employee engagement for SGI. Based on the results of the 2005 employee survey, PEET released its report and recommendations during 2006 and began working with key groups in SGI to implement its recommendations. The target for 2007 is to continue to implement initiatives that build employee engagement.

YOUTH AND ABORIGINAL EMPLOYEES

Provincial and corporate demographics demonstrate the need to recruit young people and Aboriginal people. In addition, SGI strives to meet additional goals to help it achieve a truly representative workforce. SGI has established targets for all designated groups, including women in under-represented categories, Aboriginal, people with disabilities, visible minorities as well as youth. Our results in these areas are good, exceeding targets for most of the designated groups. In 2006, the target was to have 25% of new hires be from these designated groups, with SGI exceeding the target with 30%. This continues as a target in 2007.

The key performance indicators in the Balanced Scorecard to monitor these initiatives are:

Legend: ● **achieved** ❍ **did not achieve**

MEASURE	2006 TARGET	2006 RESULTS	2007 TARGET
Front-line staff receive customer experience training	All new front-line staff receive customer experience training	● 100% front-line staff have been trained	All new front-line staff receive customer experience training
Training dollars per employee	$500	● $1,219 spent per employee	$600
Employee engagement	Implement action plan from employee survey	● Action plan has been developed and initiatives are being implemented	Implement President's Employee Engagement Team (PEET) Initiatives
New hires who are designated group members	25%	● 30%	25%

BUSINESS TECHNOLOGIES

A common pillar supporting many of the Auto Fund's strategies and initiatives is business technologies. Computer systems must be available in order to operate the business. If these systems were unavailable for a significant amount of time, business would suffer. To reduce the amount of potential down time, the Auto Fund, through SGI, has an agreement with a related party that provides alternative computing services if systems are unavailable for a significant amount of time.

The key performance indicator in our Balanced Scorecard to monitor the above initiative is:

Legend: ● **achieved** ❍ **did not achieve**

MEASURE	2006 TARGET	2006 RESULTS	2007 TARGET
Availability of business systems	99.5% of designated hours of operation	● 99.6% of designated hours of operation	99.5% of designated hours of operation
Redevelopment Project implementation versus plan	On time and on budget	● On time and on budget	On time and on budget

AVAILABILITY OF BUSINESS SYSTEMS

This measures SGI's success in having its computer business systems available for use by staff and motor licence issuers during specific hours of the day and for specific days of the week. For 2006, SGI exceeded its target of 99.5%. The target for 2007 is the same as 2006 and reflects the importance to our operations of maintaining the availability of our computer systems.

AUTO FUND REDEVELOPMENT PROJECT

Auto Fund redevelopment is a major project to redevelop the Auto Fund information system. The cost of the project is not to exceed $35 million and is anticipated to be completed by the end of 2010. The project will be implemented in five releases. The first release is anticipated for the spring of 2007 and as of December 31, 2006, the project remains on schedule to meet its timelines for implementation of release one, as well as its final release date in 2010.

CAPABILITY TO EXECUTE OUR STRATEGIES

Fundamental to the capability to execute strategies, manage key performance drivers and deliver results are employees, motor licence issuers, technology and systems, and capital and liquidity. They are discussed further below:

EMPLOYEES

Auto Fund employees are experienced and knowledgeable about the Saskatchewan automobile insurance market. Many employees have been with the Saskatchewan Auto Fund for a long time, on average 17 years; the turnover rate for the last five years has averaged 4%. Due to this long tenure and low turnover, employees have significant expertise in the core areas of the Auto Fund; licensing and registration, driver and vehicle safety services and claims handling, as well as within the support areas.

SGI is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 486 employees are expected to retire, or be eligible for retirement, by 2015. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of operations. SGI is transitioning its succession plan to a workforce-planning model that will include aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

SGI and Canadian Office and Professional Employees' Union, Local 397 (COPE 397) signed a three-year Collective Bargaining Agreement (CBA), running from January 1, 2004 to December 31, 2006, in June 2005. The CBA covers the majority of the non-management staff employed by SGI. SGI has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

MOTOR LICENCE ISSUERS

The Auto Fund provides accessibility for its customers by distributing products through a network of 422 independent motor licence issuers in 318 communities across Saskatchewan and seven branch offices throughout the province. The motor licence issuers' interests are represented by the Insurance Brokers' Association of Saskatchewan (IBAS). The Auto Fund and the motor licence issuers relationship is governed by an Issuer Accord. The Accord is intended to enhance the working relationship between the Auto Fund and the motor licence issuers, resulting in improved service to customers. Included in the Accord are 15 agreed upon items, ranging from fostering better communication between both groups, recognizing the value of each other's roles to provide service to Saskatchewan people, along with teaming-up on traffic safety programs.

TECHNOLOGY AND SYSTEMS

The Auto Fund relies on its technology and information system to deliver its products and services to the motoring public. The current system is antiquated and it is becoming increasingly difficult to make changes to meet growing business demands. The Auto Fund has a major project ongoing to redevelop the Auto Fund information system by 2010. The new system will address the antiquity of the current system, offer more choices for customers, provide better and more accessible information, allow the Auto Fund to respond more quickly to its customers and better position the Auto Fund for future demands. The cost of the project is not to exceed $35 million and is anticipated to be completed by the end of 2010.

CAPITAL AND LIQUIDITY

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. An adequate balance in the Rate Stabilization Reserve (RSR) gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims, thereby protecting customers against unpredictable premiums for their auto insurance. The Auto Fund uses a common industry measurement called the Minimum Capital Test to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The target is a range of 100% – 125%, which equates to approximately $85 million to $123 million at December 31, 2006. The balance in the RSR at December 31, 2006 was $205,601,000, which is above its target range. The RSR is above its target as a result of strong financial results in 2006, which are discussed in the section *2006 Financial Results*.

As the RSR at December 31, 2006 is above the target MCT range, the Auto Fund was able to announce a 16.8% rebate to our customers to be paid during 2007, returning approximately $100 million to policyholders. This will bring the RSR balance to within the target MCT range in 2007, yet still provide an adequate RSR balance so that customers are not subject to ongoing price fluctuations or large rate increases.

As the Auto Fund belongs to the Province, its legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the Province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the Province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. Since these traditional avenues for capital are not available to sustain the Auto Fund, it has to use premiums and fees from its operations, along with the income generated from the investment portfolio, to fund its future operations. If premiums, fees and investment income are not sufficient to sustain operations, it must increase rates. Rate changes are reviewed by the Saskatchewan Rate Review Panel, which then pass on its recommendations to the provincial government, who has the final authority to approve, modify or reject rate changes.

2006 RESULTS

QUARTERLY FINANCIAL HIGHLIGHTS

The following table highlights quarter over quarter results of the Auto Fund:

QUARTERLY FINANCIAL HIGHLIGHTS

($ in 000's)

	2006					2005				
	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1	Year
Net premiums earned	$139,248	$142,021	$135,071	$125,864	**$542,204**	$132,179	$135,113	$128,903	$123,759	**$519,954**
Claims incurred	123,987	99,121	105,705	120,259	**449,072**	126,602*	101,535	129,042	119,088	**476,267***
Surplus/(deficit)	20,397	47,563	24,288	(35,207)	**57,041**	(2,008)*	35,913	(1,331)	12,748	**45,322***
Cash flow from (used in) operations	23,700	28,055	12,574	(18,394)	**45,935**	7,516	29,837	60,227	(17,066)	**80,514**
Investments	1,072,454	1,054,444	986,392	973,821		1,003,439	997,042	963,772	886,817	
Provision for unpaid claims	763,554	755,984	737,092	737,397		746,989*	733,516	726,935	694,610	
Rate Stabilization Reserve	205,601	184,862	153,016	128,425		147,264*	149,272	148,359	149,690	

* restated

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2006:

– Net premiums earned have increased due to newer vehicles being included in the registered vehicle population mix that have a higher premium combined with an increase in the number of vehicles insured.

– Except for the first quarter, the Auto Fund generated positive cash flows from operations each quarter in both 2006 and 2005. Cash is typically low in the first quarter as annual premium taxes are paid to the Province in March. Premium taxes are based on premiums written and are approximately $26 million in both 2006 and 2005. When excess cash is available it is invested, which is reflected in the higher investment balance quarter over quarter.

FOR THE THREE MONTHS ENDED DECEMBER 31, 2006

Since 2004, the Auto Fund has been preparing public quarterly financial reports. These reports are available on SGI's website at www.sgi.sk.ca. The following analyzes the fourth quarter of 2006:

The Auto Fund recorded a fourth quarter surplus of $20,397,000 compared to a deficit of $2,008,000 in the fourth quarter of 2005. The improvement is primarily a combination of higher premium earnings, strong investment earnings and a restatement of the 2005 fourth quarter claims incurred which reduced the 2005 surplus by $16,059,000.

Net premiums earned for the quarter of $139,248,000 are $7,069,000 higher than the fourth quarter in 2005 ($132,179,000). This increase is due to a newer vehicle population mix that costs more to insure, combined with an increase in the number of vehicles insured.

Investment earnings of $23,974,000 are $12,155,000 higher than earnings of $11,819,000 in the fourth quarter of 2005. The improvement in investment earnings is primarily due to gains on the sale of investments, which totalled $10,077,000 for the quarter (2005 – $2,364,000).

FOR THE YEAR ENDED DECEMBER 31, 2006

STATEMENT OF OPERATIONS

OVERVIEW

The Auto Fund recorded a surplus of $101,138,000 for the year ended December 31, 2006, before the rebate to policyholders. After taking into account the rebate of $44,097,000, the net increase to the Rate Stabilization Reserve in 2006 was $57,041,000 (2005 – $45,322,000). In 2006, increased premium earnings, strong investment returns and continued favourable prior-year claim development contributed to the improved results. This strong financial performance results in a Rate Stabilization Reserve at December 31, 2006 of $205,601,000.

In addition to 2006 marking the sixth consecutive year with no rate increase for Auto Fund customers, its continued strong financial performance allowed Auto Fund customers to benefit from further customer-focused initiatives in 2006 including:

- An 8% rebate, amounting to $44,097,000, was returned to Auto Fund customers; and,
- The Safe Driver Recognition program was improved to recognize "Platinum" customers, or the safest drivers, by allowing these drivers to earn a safety rating in excess of +10, building a cushion that will lessen the impact if the driver is responsible for a traffic incident in the future.

Looking forward to 2007, further initiatives are being implemented for our customers including:

- A 16.8% rebate to customers who were policyholders in 2006 will be paid in the spring of 2007. The rebate will provide approximately $100 million to customers from the RSR;
- A proposal for a 5% general rate reduction with rate rebalancing, which if approved would be effective July 1, 2007 has been presented to the Saskatchewan Rate Review Panel; and,
- A new five-year traffic safety strategy was developed to further help in saving lives, reducing injuries and lowering claim costs.

The financial cost of the 2007 initiatives is not included in the 2006 operating results, but will be included in 2007 cost of operations.

PREMIUMS WRITTEN

Total net premiums written in 2006 were $560,432,000, a 7.8% increase from 2005. The increase was attributable to a newer vehicle population and an increase in the number of vehicles insured in 2006. The Safe Driver Recognition and Business Recognition programs returned $73,089,000 to Auto Fund customers through safe driving discounts in 2006, compared to $71,634,000 in 2005. The maximum discounts available are consistent with 2005, 20% for the Safe Driver Recognition program, and 10% for the Business Recognition program.

CLAIMS INCURRED

Claims incurred in 2006 were $449,072,000, $27,195,000 less than 2005. The following table details the claim costs by categories:

	2006	2005	Change
Damage claims (current year)	$ 301,358	$ 283,398	$ 17,960
Injury claims (current year)	192,823	190,338	2,485
Pre-1995 injury claims	(2,070)	2,397	(4,467)
Injury – prior year redundancy	(48,965)	(27,767)	(21,198)
Damage – prior year deficiency	5,926	6,064	(138)
Income benefits from new legislation	–	21,837	(21,837)
Total claims incurred	$ 449,072	$ 476,267	$ (27,195)

Current year damage claim costs increased by $17,960,000 or 6.3%. While the volume of damage claims experienced was similar to the prior year, the average cost per claim increased by 6.1% during 2006.

There was minimal change in the current year cost of injury claims, as they increased by 1.3% compared to 2005. The increase is due to the annual indexing of injury benefits and is partially offset by a decline in the number of reported injury claims during the year.

The accident frequency per 1,000 insured years declined slightly during the year to 105, compared to 107 for the same period in 2005.

DEVELOPMENT ON PRIOR YEAR CLAIMS ESTIMATES

During 2006, the Auto Fund reduced its estimate for prior year injury claims by $48,965,000 compared to reducing its estimate by $27,767,000 in 2005. At the same time, it increased its reserves for damage claims by $5,926,000. With the assistance of its actuary, the Auto Fund makes provisions for future payments on existing claims and an estimate for claims that have occurred but have not yet been reported. At the end of each year, the actuary recalculates the estimate of the ultimate costs for prior years (along with an estimate for the current year). If the actuary reduces the estimate for prior years, a "redundancy" exists, resulting in a reduction in claim costs for the year. If the reverse is true and the actuary increases the estimate for prior years, a "deficiency" exists, resulting in an increase in claim costs for the year.

As can be seen from the above table, the actuary's estimates have been too high the past two years on injury claims resulting in redundancies, which have a positive impact on profitability. Because injury claims are long-term in nature, the total cost of these types of claims is hard to estimate. For the injury program, only 17% of the total estimated costs are paid in the year the loss is reported, compared to 80% for damage claims. As an example of the long-term nature of these claims, for some catastrophic injuries the no-fault injury program will be making claim payments for the remainder of the person's life. As well, the no-fault program provides lifetime coverage for traffic collision related injuries. Therefore, a claim file could be dormant with no payments for 10 to 20 years and then be reopened because the injured party had a reoccurrence of the injury requiring medical treatment. These examples illustrate the uncertainty inherent in the estimates for these types of claims. Other factors will also have an impact on the estimates for these claims, such as inflation (no-fault benefits are indexed to inflation), medical innovations and rehabilitation programs.

When the No Fault injury program was implemented in 1995, the actuary had limited information to rely on in determining the claim costs and therefore it was prudent to estimate the claims conservatively. The actuary now has over 10 years of historical data and experience with the injury program. While 10 years of data certainly provides some comfort that the Auto Fund is in a better position to estimate injury costs, factors such as reoccurrence rates are difficult to anticipate. While the Auto Fund's objective is to keep the estimate as accurate as possible with minimal changes to prior year claim estimates, given the nature of this program, changes will inevitably occur in the future.

INCOME BENEFITS ENHANCEMENT

Effective June 2005, an amendment was introduced to *The Automobile Accident Insurance Act* to increase benefits to seriously injured customers who were injured prior to August 2002. The impact of the improved benefits was $21,837,000 and was recorded during 2005. This was a one-time cost, increasing the amount of the provision for unpaid claims to reflect the increased benefits and therefore there is no corresponding amount in 2006.

EXPENSES EXCLUDING CLAIMS INCURRED

Expenses excluding claims incurred are $90,892,000 (2005 – $86,220,000) for the year, $4,672,000 more than the prior year. Issuer fees of $22,936,000 increased by $2,005,000, or 9.6%. The increase is a result of a negotiated rate increase for issuers. Administrative expenses were $29,945,000 in 2006, an increase of $1,883,000 or 6.7% from 2005. The increase is primarily due to $1,296,000 in costs incurred for the first phase of the Auto Fund Redevelopment Project. While $35,000,000 was appropriated from the Rate Stabilization Reserve for this project, as expenses are incurred they are required to flow through the Statement of Operations to arrive at the net profit or loss for the period. Premium taxes of $27,221,000 increased by $1,138,000, consistent with the growth in earned premiums. Traffic Safety Program spending for the year of $10,790,000 represents 2.0% of annual premiums and declined slightly from last year's total of $11,144,000. Generally, the Auto Fund has targeted approximately 2% of premiums earned to be spent on traffic safety programs.

INVESTMENT EARNINGS

Investment earnings in 2006 of $78,669,000 were $10,990,000 higher than last year's earnings of $69,679,000. The return on the portfolio, which had an average book value for the year of $1.050 billion, was 7.5%, compared to 6.9% in 2005 when the portfolio averaged $982,000,000. The increased investment earnings were a result of both an improved rate of return and a larger investment portfolio during the year. The increased rate of return was due to a higher yield on bonds and short-term investments. As well, income from the Auto Fund's non-North American equity fund grew by $2,875,000 in 2006. Investment write-downs during 2006 were minimal at $121,000.

OTHER INCOME

Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term payment option programs, as well as net income from the Salvage division. In 2006, fees earned for using payment option plans increased to $14,597,000, $438,000 or 3% higher than the previous year. Salvage income of $5,632,000 in 2006 was slightly lower than 2005.

STATEMENT OF OPERATIONS – ACTUAL VERSUS BUDGET

The Auto Fund prepares an annual budget each fall for the upcoming fiscal year. The plan is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2006 budget, developed in the fall of 2005, anticipated a loss of $618,000 in 2006. The Auto Fund actually recorded a surplus for the year of $101,138,000, before the rebate to policyholders of $44,097,000. The variance to budget was a result of stronger than anticipated net premiums earned and investment earnings, combined with lower than expected claims incurred.

Premiums earned were $22,470,000, or approximately 4% higher than the anticipated budget of $519,734,000. Each year, the budget anticipates increases in premiums resulting from a newer vehicle population, which costs more to insure, combined with a growth in the number of vehicles insured. In the current year, the actual increase was higher than anticipated.

The investment portfolio provided earnings of $78,669,000, which was $16,635,000 higher than the planned investment earnings. The budget anticipated a 5.9% book value return on the portfolio compared to the actual return of 7.5%. The difference is due primarily to gains realized on the sale of investments being $12,600,000 more than expected, net of writedowns. As gains on the sale of investment are somewhat dependent on trading activity of the investment manager as well as capital market performance, they are typically difficult to budget accurately.

Claim costs were $62,704,000 lower than expected due in part to a change in the actuary's estimate of the cost of prior year claims of $43,039,000. The budget does not include an estimate for a change in the actuary's estimate of prior year costs and, therefore, this net redundancy results in a variance to budget. Current year damage and injury claims are also lower than expected for the year. Even though the number of vehicles insured in the province has continued to increase the last several years, the volume of claims has been declining for both damage and injury.

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES

The Auto Fund continues to generate healthy cash flows from operations. In 2006, the Auto Fund generated $45,935,000 (2005 – $80,514,000) or $34,579,000 less than in 2005. This decrease was primarily related to the payment of the $44,097,000 rebate to policyholders.

INVESTING ACTIVITIES

Surplus cash from operations is invested in the Auto Fund's investment portfolio. Our investment manager actively trades the Auto Fund's investments in the capital markets. Purchases were made of $1.603 billion and proceeds from the sale of investments

of $1.566 billion occurred during the year, resulting in a net purchase of investments of $37,041,000. The primary source of cash used to fund this net purchase of investments was cash generated from operations.

STATEMENT OF FINANCIAL POSITION

ACCOUNTS RECEIVABLE

Accounts receivable increased $27,083,000 to $151,415,000 in 2006 from $124,332,000 in 2005. This increase is a result of investment proceeds outstanding at December 31, 2006 of $13,797,000, which were received subsequent to year-end. Also, financed premiums receivable increased $12,175,000 to $112,372,000 at the end of 2006. This receivable represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed and the remainder in monthly installments. The policyholder also pays an additional charge for this option to recover the additional administrative costs and lost investment revenue to the Auto Fund.

INVESTMENTS

The Auto Fund's investments are short-term investments, bonds and debentures, equities, mortgages and real estate. Equities includes investments in Canadian and United States common shares as well as an investment in a non-North American pooled equity fund. Real estate includes investment in a pooled real estate fund as well as an income-producing property in Regina, Saskatchewan. More detail on the investment portfolio categories is provided in note 6 to the financial statements. The following pie charts summarize the asset mix based on book values at December 31, 2006 and 2005:

SASKATCHEWAN AUTO FUND ASSET MIX %

The most significant change to the asset mix in 2006 was to include a portion of the portfolio in a pooled real estate fund. The decision to invest in a pooled real estate fund was done to further diversify the investment portfolio to manage investment risk, while still considering the liquidity needs of the Auto Fund based on claim settlement patterns. The policy allows for a maximum 7% of the portfolio, on a market value basis, to be invested in real estate. As a result, the weighting for bonds and debentures decreased from 2005.

The book value of invested assets grew $69.0 million during the year as a result of cash flow generated from operations used for investing activities as well as realized gains on the sale of investments during the year. Net unrealized gains at December 31, 2006 are $106,033,000 (2005 – $88,461,000) and primarily relate to equities.

ACCOUNTS PAYABLE AND ACCRUED CHARGES

At December 31, 2006, accounts payable and accrued charges were $28,188,000 (2005 – $18,065,000). The increase primarily relates to investments purchased prior to December 31, 2006, where the funds to settle the investment were not disbursed until subsequent to year-end.

UNEARNED PREMIUMS

Unearned premiums grew by $18,673,000, consistent with the growth in premiums realized during the year.

PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims grew by $16,565,000 during 2006 to $763,554,000. This represents an increase of approximately 2% from last year. The key components of the change in the Provision for Unpaid Claims are discussed in the Claims incurred section above.

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The process for determining the provision requires management judgment and estimation as discussed in the following section Critical Accounting Estimates.

EQUITY

RATE STABILIZATION RESERVE (RSR)

At December 31, 2006, the balance in the RSR was $205,601,000 (2005 – $147,264,000). The change in the balance is due to the current year's surplus of $57,041,000. The opening balance of the RSR was adjusted by $16,059,000 as a result of a prior period adjustment to correct for an error in the calculation of the provision for unpaid injury claims at December 31, 2005. This correction is discussed below in Prior period adjustment and in Note 3 to the financial statements.

REDEVELOPMENT RESERVE

The existing Auto Fund information system is being replaced at a cost not to exceed $35 million. The project is anticipated to be complete by the end of 2010. It is required to address the antiquity of current systems, make improvements in delivering changes, offer more choices for customers, provide better and more accessible information and better position the Auto Fund for future demands.

A $35 million Redevelopment Reserve was established to ensure that adequate funding is available to meet the Auto Fund's commitment to this important project. The $35 million was funded through an appropriation from the Rate Stabilization Reserve. During 2006, costs were incurred related to the project of $1,296,000, and therefore the reserve was reduced accordingly, with $1,296,000 appropriated back to the Rate Stabilization Reserve.

PRIOR PERIOD ADJUSTMENT

The Auto Fund uses a long-term reserving model to estimate reserves for care benefits and income replacement claims. During 2005, the actuary reviewed this model and found that the case settlement experience was better than expected and reflected this as a reduction to the provision for unpaid claims at December 31, 2005. However, in performing the year-end actuarial valuation, the method the actuary used to estimate the provision for unpaid claims also implicitly considered the improved case settlement experience. As such, the improved case settlement experience was accounted for twice, resulting in the actuary's estimate of the provision for unpaid claims of $730,900,000 being understated by $16,059,000 or approximately 2% of the provision for unpaid claims. The error has been recorded as a prior period adjustment in accordance with Canadian generally accepted accounting principles, including retroactive restatement of certain 2005 balances as described in Note 3 to the financial statements.

RELATED-PARTY TRANSACTIONS

The Saskatchewan Auto Fund is related in terms of common ownership to all Government of Saskatchewan departments, agencies, boards, commissions, Crown corporations and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities are entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. See Note 14 to the financial statements for the details of these transactions.

SGI is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. Administrative and claim adjustment expenses incurred by SGI are allocated to the Auto Fund directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $83,346,000 (2005 – $78,924,000) and accounts receivable are $1,613,000 (2005 – $1,736,000).

One of SGI's directors is a partner in an organization that provided professional services to the Auto Fund. During the year, these services amounted to $52,000 (2005 – $76,000).

The Auto Fund, as lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Department of Saskatchewan Property Management, a provincial government department. This lease expires in April 2011. Further details for this lease are provided in Note 7 to the financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Auto Fund, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and rehabilitation funding commitments. These items are discussed below and in the notes to the financial statements.

The Auto Fund, as is common to other entities that operate in the insurance industry, is subject to litigation arising in the normal course of insurance operations. The Auto Fund is of the opinion that current litigation will not have a material impact on operations, financial position or cash flows of the Fund.

In the normal course of settling claims, the Auto Fund settles some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the property and casualty industry. The net present value of the scheduled payments at December 31, 2006 is $24,352,000 (2005 – $24,488,000). The Auto Fund has no recourse to these funds. The Auto Fund provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the likelihood of such default is consider as being extremely remote.

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations to provide for rehabilitative services for those injured in automobile accidents. Funding commitments, which are detailed further in Note 17 to the financial statements, range from $10,500,000 to $12,966,000 per year for the next five years.

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems. The remaining commitment for services to be provided from 2007 to 2010 is $6,393,000 (2005 – $7,832,000). In addition, the Auto Fund is committed to a related party until 2008 for a telecommunications contract. At December 31, 2006, the remaining commitment is $843,750 (2005 – $1,255,000).

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of financial condition and results of operations is based upon financial statements as presented in this annual report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are described in Note 2 to the financial statements. Certain of these policies involve critical accounting estimates because they require SGI as the administrator to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims and impairment of investments.

PROVISION FOR UNPAID CLAIMS

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims, and incurred but not yet reported claims (IBNR) as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known at that time. As well uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, only long-term disability claims included in this provision are discounted. Any adjustments to these estimates, both positive (a redundancy) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Statement of Operations.

IMPAIRMENT OF INVESTMENTS

The establishment of an impairment of an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that has existed for at least six months;
- assessing if declines in market value are other than temporary for debt security holdings based on the investment grade credit rating from third-party security rating agencies; and,
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

UPCOMING CHANGES IN ANNOUNCED ACCOUNTING STANDARDS

The following is a summary of announced changes to Canadian accounting standards that management believes will have an impact on the consolidated financial reporting of the Auto Fund. This is not an exhaustive listing of all announced changes by the Canadian Institute of Chartered Accountants (CICA).

SECTION 3855, FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

In January 2005, the CICA issued new standards for the recognition and measurement of financial instruments. Under the new standard, all financial instruments will be classified as one of the following: held to maturity, loans and receivables, held for trading or available for sale. Financial assets and liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, will be measured at amortized cost. Available for sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income, a new component of Equity discussed below.

The Auto Fund has assessed the impact of this accounting change on its consolidated financial statements. While the impact is expected to be far reaching, the most significant impact is expected to be related to the measurement of its investment portfolio assets, the majority of which Management has determined will be designated as available for sale. The change in accounting policy is effective January 1, 2007 and is anticipated to result in an increase to investment assets and other comprehensive income of approximately $106 million.

SECTION 1530, COMPREHENSIVE INCOME AND SECTION 3251, EQUITY

This new accounting standard defines comprehensive income as the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources and requires a Consolidated Statement of Comprehensive Income be reported. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income includes those revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income. Other comprehensive income includes unrealized gains or losses on financial assets classified as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments. Section 3250, *Equity*, requires accumulated other comprehensive income be disclosed as a separate item within a company's equity.

The Auto Fund has assessed the impact of these accounting changes on its consolidated financial statements. The only transactions that the Auto Fund has which will be recorded through other comprehensive income are related to those unrealized gains and losses on financial assets designated as available for sale. The change in accounting policy, effective January 1, 2007, will be recorded without restatement of prior year's figures and is anticipated to result in an opening balance in 2007 in accumulated other comprehensive income of approximately $106 million.

RISK MANAGEMENT

Understanding and managing risk is important to the Auto Fund's success. Risks represent potential threats to meeting the objectives set forth and affect the ability to take advantage of opportunities as they present themselves. Senior management of SGI, acting as the administrator of the Auto Fund, has a process to formally review risks semi-annually. This review includes identifying, analyzing and ranking the key risks based on their likelihood of occurrence and their potential impact. This process results in a risk profile for the Saskatchewan Auto Fund. Mitigation plans are developed to minimize the impact or likelihood of occurrence of the identified risks, based on their risk ranking. The risk profile is reviewed, and input provided, by the Audit and Finance Committee of the Board of Directors. The administrator's Audit Services branch also uses the risk profile in developing its annual work plan.

The following are the main risks that are managed to reduce their impacts on operations and profitability. It is not an exhaustive list of all risks the Auto Fund faces.

Provision for unpaid claims (or reserve risk) is the risk that the reserves set aside today are not enough to meet the Auto Fund's liability for unpaid claims. The Auto Fund maintains a reserve to cover the liability for future payments on reported claims and an estimate for claims that have not yet been reported. These amounts are estimates, and the ultimate payment on these claims may differ from the estimate. Fluctuations in this reserve are monitored on an ongoing basis to limit their impact on operations.

Inaccurate claims liability estimates could lead to inappropriate rating decisions, the misstating of financial results or an inability to meet claims obligations as they come due. These risks could lead to harm to the Auto Fund's reputation and loss of public confidence. Detailed annual reviews of case reserves are conducted each year by the claims department. As well, an in-house actuarial unit monitors claims reserve adequacy throughout the year and undertakes actuarial valuations for the Auto Fund at least annually.

Regulatory risk represents the risk that the Auto Fund cannot get rate changes when required, leading to rate imbalances and inequities, which can cumulate over time. Corrections to this imbalance could lead to rate shocks and potentially negative reaction from Auto Fund customers. To mitigate this risk, the Auto Fund maintains a sufficient surplus in the Rate Stabilization Reserve, is undertaking an annual rate adequacy analysis and will continue to work with the Saskatchewan Rate Review Panel and the Government of Saskatchewan.

Privacy management risk is the risk that the Auto Fund releases or uses private information without proper authorization. The improper release of information would cause financial and reputational harm. To reduce this risk, SGI as the administrator of the Auto Fund has assigned a Chief Privacy Officer and developed a privacy management framework that meets legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* (Saskatchewan), *The Health Information Protection Act* and other privacy legislation. The framework ensures that policies and practices are in place to protect privacy and personal information maintained by SGI. It has access controls that limit access to the data. All employees, including the Board of Directors, are subject to SGI's Code of Ethics and Conduct and its Information Technology policy. All employees of SGI are required to take privacy training. As well, during 2006 a whistleblower hotline was implemented.

Third party or employee fraud risk exists and includes the commitment of fraudulent acts by claimants, as well as the risk of fraudulent activities by staff and other business partners. These and other illegal acts can have far-reaching financial implications for the business overall, resulting in harm to the Auto Fund's reputation and weakening customer confidence. The use of internal and external auditors is currently an existing mitigating factor. The Auto Fund continues to use and improve its Audit Services department, its Special Investigations Unit, and its overall control systems to control fraudulent activities. A whistleblowing hotline established during 2006 is also expected to mitigate this risk.

Risk to information systems involves the protection of data from accidental or deliberate destruction and from outside intrusion. It also involves the security of corporate hardware from failure, destruction or theft, maintaining up-to-date versions of software/hardware, along with keeping abreast of changes in information technology. Data is secured using modern systems of access and protection along with regular backups. SGI has developed and regularly reviews its business continuity plan, which includes provision for an alternative computing services site for major applications that can be instantly activated.

Reinsurance risk relates to a financial loss due to inadequate coverage, default or financial failure of a reinsurer. The Auto Fund annually reviews reinsurance requirements to determine the type and amount required for sustaining the Auto Fund's operations. Reinsurers are selected based on their financial strength, coverage available and the cost of the reinsurance. Due to the number of world-wide disasters in the last five years, the availability and cost of reinsurance available to the Auto Fund has become increasingly expensive, but not cost prohibitive. Reinsurance is required to sustain operations and to help minimize rate increases. Reinsurance does not relieve the Auto Fund of our financial responsibilities to policyholders, but helps to pay these claims in the event of a catastrophic event.

Catastrophe exposure risk relates to losses arising from catastrophic events. With the Auto Fund insuring all vehicles in the province, it is susceptible to large losses from major storms in Saskatchewan. To limit this risk, it purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events.

Investing risk relates to changes in interest rates, foreign currency and market values. Lower interest rates impact the earnings of the investment fund that is used to pay claims. The returns from capital markets, both domestic and foreign, are uncertain and will fluctuate from year to year. A Statement of Investment Policies and Goals (SIP&G) is reviewed annually by internal and external investment consultants and is approved by the Investment Committee of the Board annually. No derivative financial instruments are used to alter the effects of market changes and fluctuations. The main goal of the SIP&G is to have an investment policy and strategy that is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximize long-term returns utilizing a conservative investment portfolio.

The investment manager follows the SIP&G, which provides guidelines for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market-value fluctuations by requiring investments in different pools and in domestic and foreign markets. Some of the quantity and quality investment limits are based on legislative requirements in *The Insurance Companies Act* (federal). The SIP&G also has rate of return standards for the portfolio and performance return measurement standards for the investment manager. The investment manager produces quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors.

Foreign currency exposure arises from holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. Foreign currency risk is managed by limiting holdings of foreign investments to a maximum of 14% of the market value of the entire investment portfolio.

OUTLOOK FOR 2007

As the Auto Fund enters 2007, it is in the strongest financial position in its history after nine consecutive years of surpluses. The strong financial results are due to a combination of favourable weather, reduced accident frequency, increased premium revenues, strong investment performance, solid management of claims and the gradual release of injury claim reserves as experience with the no-fault program is gained. These strong financial results position the Auto Fund to make large strides in 2007 towards being both customer-driven and the most affordable automobile insurance plan in Canada.

The Auto Fund is currently collecting more premium than required to pay claim costs and other expenses. Therefore, the Auto Fund has brought forward a proposal to the Saskatchewan Rate Review Panel recommending a 5% reduction in rates, which if approved would be effective July 1, 2007, to ensure its customers are paying fair rates for their vehicle premiums in 2007. The Auto Fund has seen no rate increases for six years and in fact, overall, rates have actually decreased with the improvements made to the Safe Driver and Business Recognition discount programs. The Cross-Canada rate comparison, performed by the Auto Fund, has also concluded that Auto Fund customers benefit from the lowest auto insurance rates in Canada. The rate reduction proposed for 2007 will further strengthen our position as having the lowest auto insurance rates in Canada.

While low auto insurance rates are important, fairness in rating is also. To enhance fairness in rating, the Auto Fund's 2007 rate reduction proposal includes a rebalancing of rates, as some customers are currently paying too much for their vehicle insurance and others are paying too little. Rebalancing takes into account accident frequency and repair costs. Rates are determined based

on the risk a particular vehicle represents for being involved in a claim, as well as the cost to repair or replace the vehicle. While rebalancing is important to ensure fairness, increases and decreases have been capped to avoid 'rate shock' which is important to being a customer-driven company.

A key operating principle for the Auto Fund is ensuring consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases in the future. An adequate balance in the Rate Stabilization Reserve gives the Auto Fund a financial resource to draw on when adverse events increase the cost of claims thereby protecting customers against unpredictable premiums for their auto insurance. Our strong financial results for 2006 have resulted in the Rate Stabilization Reserve being higher than required to accomplish this. The Auto Fund is therefore offering a rebate again in 2007 to Auto Fund customers, who were policyholders during 2006, subject to certain restrictions. The average rebate is expected to be about $180 and in total will return approximately $100,000,000 to policyholders.

The Auto Fund is moving forward with other valuable customer-driven initiatives other than rating in 2007. One of the key strategies being implemented for 2007 pertains to road safety. Customers value the Auto Fund for its role in promoting road safety in the province and it is always looking at new and innovative ways to improve road safety. Over the years, SGI has evolved into a national leader in the area of road safety programs, education and legislation. During 2006, a new five-year traffic safety strategy was developed to further help in saving lives, reducing injuries and lowering claim costs. The new strategy will be in place for 2007 and focuses on six key areas – Impaired Driving, Occupant Protection, Intersection Safety, Speed Management, Roadway-Based Solutions and Human Factors. The new traffic safety strategy has established ambitious objectives to change the road safety picture in the province.

The vision to be customer driven means the Auto Fund wants to anticipate the expectations of its customers and exceed them. Tools were developed during 2006 for understanding what customers want and how the Auto Fund is doing in achieving its vision. We established three Customer Councils – one representing customers from the general public, one representing commercial customers and the third consisting of SGI employees who work directly with our customers. Each council has provided valuable ideas on how to improve the Auto Fund's products and services and will continue to meet in 2007. A customer value index (CVI) has also been established as a comprehensive measure for tracking customer satisfaction. The CVI tracks seven key areas of importance – overall management; listening to the concerns of our customers; having well trained, experienced staff; educating and informing the public; behaving in an ethical, responsible manner; maintaining low rates relative to other parts of Canada; and, providing high standards of customer service. Tools such as this will help guide the Auto Fund in 2007 with its customer-driven initiatives.

During 2007, progress will continue on the Auto Fund System Redevelopment project, with a goal of being completed in 2010 at a cost of $35 million. The new system will offer more choices for customers, provide better and more accessible information, allow the Auto Fund to respond more quickly to its customers and better position the Auto Fund for future demands. The first of five releases will go into production in early 2007.

These initiatives are prime examples of how the Auto Fund is working hard to achieve its vision of being the best customer-driven and affordable automobile insurance plan in Canada. We endeavour to maintain rates as low as possible, improve fairness in individual rates and provide an outstanding customer experience when dealing with us. We will continue our role as a national leader in traffic safety initiatives and will always look for creative solutions for our customers.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking statements include, among others, statements regarding the Saskatchewan Auto Fund objectives, strategies and capabilities to achieve them. These statements are not historical facts. Forward-looking statements are typically identified by words such as believe, expect, will, would, should, may, could or other comparable words. These statements involve risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by SGI, as the administrator of the Auto Fund, in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. Many factors could cause our actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements. Some of these factors that could cause such differences are discussed under the section Risk Management in this MD&A. The Risk Management section is not a comprehensive list of all possible factors, and other factors could also adversely affect the Auto Fund's results.

SGI, as the administrator of the Auto Fund, deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Auto Fund. Undue reliance should not be placed on our forward-looking statements, which only apply as of the date of this MD&A document. We do not undertake to update any of the forward-looking statements that may be made from time to time by or on our or the administrator's behalf.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Auto Fund) within reasonable limits of materiality.

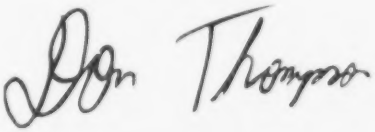
Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Auto Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Auto Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Auto Fund and the nature of the insurance policies. The actuary also makes use of Management information provided by the Auto Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Auto Fund. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Auto Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President
Saskatchewan Government Insurance
as Administrator of the
Saskatchewan Auto Fund



Don Thompson
Chief Financial Officer
Saskatchewan Government Insurance
as Administrator of the
Saskatchewan Auto Fund

February 28, 2007

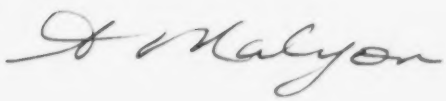
ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of Saskatchewan Auto Fund for its statement of financial position at December 31, 2006 and their change in the statement of operations and rate stabilization reserve for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



Andrea Malyon
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 28, 2007

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2006 and the statements of operations and rate stabilization reserve and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 28, 2007

STATEMENT OF FINANCIAL POSITION

December 31	2006	2005 Restated (Note 3)
	(thousands of $)	
Assets		
Cash and cash equivalents (note 4)	$ 24,748	$ 21,764
Accounts receivable (note 5)	151,415	124,332
Deferred policy acquisition costs	19,094	17,117
Prepaid expenses and inventories	4,721	4,529
Investments (note 6)	1,072,454	1,003,439
Net investment in capital lease (note 7)	3,429	4,046
Property, plant and equipment (note 8)	41,925	38,155
	$ 1,317,786	$ 1,213,382
Liabilities		
Accounts payable and accrued charges	$ 28,188	$ 18,065
Premium taxes payable	28,103	26,101
Unearned premiums	258,636	239,963
Provision for unpaid claims (note 9)	763,554	746,989
	1,078,481	1,031,118
Equity		
Rate Stabilization Reserve	205,601	147,264
Redevelopment Reserve (note 10)	33,704	35,000
	239,305	182,264
	$ 1,317,786	$ 1,213,382

Commitments and contingencies (note 17)

(see accompanying notes)

STATEMENT OF OPERATIONS AND RATE STABILIZATION RESERVE

year ended December 31	2006	2005 Restated (Note 3)
	(thousands of $)	
Gross premiums written	$ 562,069	$ 522,023
Net premiums written	$ 560,432	$ 519,691
Net premiums earned	**$ 542,204**	$ 519,954
Claims incurred	449,072	476,267
Issuer fees	22,936	20,931
Administrative expenses	29,945	28,062
Premium taxes	27,221	26,083
Traffic safety programs	10,790	11,144
Total claims and expenses	**539,964**	562,487
Underwriting profit (loss)	**2,240**	(42,533)
Investment earnings (note 11)	78,669	67,679
Other income (note 12)	20,229	20,176
Increase to Rate Stabilization Reserve before rebate to policyholders	**101,138**	45,322
Rebate to policyholders (note 16)	(44,097)	–
Increase to Rate Stabilization Reserve	**57,041**	45,322
Rate Stabilization Reserve, as previously reported	163,323	136,942
Prior period adjustment (note 3)	(16,059)	–
Opening Rate Stabilization Reserve, restated	147,264	136,942
Appropriation from (to) Redevelopment Reserve (note 10)	1,296	(35,000)
Rate Stabilization Reserve, end of year	**$ 205,601**	$ 147,264

(see accompanying notes)

STATEMENT OF CASH FLOWS

year ended December 31	2006	2005 Restated (Note 3)
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Increase to Rate Stabilization Reserve	$ 57,041	$ 45,322
Non-cash items:		
Amortization	4,296	6,235
Net realized gain on sale of investments	(34,740)	(36,495)
Investment write downs	121	4,943
Change in non-cash operating items (note 13)	19,217	60,509
	45,935	80,514
Investing activities		
Purchases of investments	(1,602,734)	(1,970,674)
Proceeds on sale of investments	1,565,693	1,877,761
Repayment of capital leases	617	559
Purchases of property, plant and equipment	(6,527)	(2,122)
Proceeds on disposal of property, plant and equipment	–	12
	(42,951)	(94,464)
Increase (decrease) in cash and cash equivalents	**2,984**	(13,950)
Cash and cash equivalents, beginning of year	21,764	35,714
Cash and cash equivalents, end of year	**$ 24,748**	$ 21,764

(see accompanying notes)

December 31, 2006

1. STATUS OF THE AUTO FUND

The Saskatchewan Auto Fund (the Auto Fund) was established effective January 1, 1984 by an amendment to *The Automobile Accident Insurance Act*. The Auto Fund is a compulsory vehicle insurance program providing vehicle registrations, driver's licences and related services for Saskatchewan drivers and vehicle owners. In addition to vehicle damage and property liability coverage, the Auto Fund also includes injury coverage that provides a choice between No Fault or Tort coverage.

The Auto Fund is a self-sustaining fund, administered by Saskatchewan Government Insurance (SGI). The role of SGI, as administrator, is to oversee the operations of the Auto Fund for the Province of Saskatchewan. Any annual excess or deficiencies of the Auto Fund is recorded in its Rate Stabilization Reserve. The Rate Stabilization Reserve is held on behalf of Saskatchewan's motoring public and is intended to protect motorists from rate increases made necessary by unexpected events and losses arising from catastrophic events. Being a fund of the Province of Saskatchewan, it is exempt from federal and provincial income taxes. The financial results of the Auto Fund are included in the Province of Saskatchewan's summary financial statements and not in SGI's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Auto Fund are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

DEFERRED POLICY ACQUISITION COSTS

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

INVESTMENTS

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares, the pooled equity fund, the pooled real estate fund and income producing property are valued at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

The Auto Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is being amortized over its estimated useful life of 50 years on a straight-line basis. The other interests in this joint venture are SaskPen Properties Ltd. (SaskPen) and a private sector investor. SaskPen is a real estate corporation owned by Province of Saskatchewan employee pension plans.

Investments are written down when there is a decline in value that is other than temporary.

CAPITAL LEASES

Investment earnings related to direct financing leases are recognized in a manner that produces a constant rate of return on the investment in each lease. The net investment in leases is composed of net minimum lease payments less unearned finance income.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings and improvements	2½ - 5%
Computer hardware, system costs and other equipment	20 - 50%

PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjusting expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

REDEVELOPMENT RESERVE

The Redevelopment Reserve was established, through an appropriation from the Rate Stabilization Reserve, to meet the Auto Fund's commitment to redevelop its information system. As redevelopment expenses are incurred and charged against income, funds are appropriated back to the Rate Stabilization Reserve.

PREMIUMS

Premiums written are taken into income over the terms of the related policies, no longer than twelve months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the date of the Statement of Financial Position. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 9).

3. PRIOR PERIOD ADJUSTMENT

The Auto Fund uses a long term reserving model to estimate reserves for care benefits and income replacement claims. During 2005, the actuary reviewed this model and found that the case settlement experience was better than expected and reflected this as a reduction to the provision for unpaid claims at December 31, 2005. However, in performing the year-end actuarial valuation, the method the actuary used to estimate the provision for unpaid claims also implicitly considered the improved case settlement experience. As such, the improved case settlement experience was accounted for twice, resulting in the actuary's estimate of the provision for unpaid claims of $730,900,000 being understated by $16,059,000 or 2 per cent of the provision for unpaid claims.

The error has been corrected retroactively. The effect of the correction to the financial statements as at December 31, 2005 is outlined below:

(thousands of $)	2005 Increase / (Decrease)
Statement of Financial Position	
Provision for unpaid claims	$ 16,059
Rate Stabilization Reserve	(16,059)
Statement of Operations and Rate Stabilization Reserve	
Claims Incurred	16,059
Increase to Rate Stabilization Reserve	(16,059)
Statement of Cash Flows	
Increase to Rate Stabilization Reserve	(16,059)
Change in non-cash operating items	16,059

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $24,550,000 (2005 - $19,077,000) in treasury bills earning an average effective interest rate of 4.3% (2005 – 3.3%).

5. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $) 2006	2005
Due from insureds	$ 114,684	$ 102,914
Investment proceeds receivable	13,797	–
Accrued investment income	7,077	6,664
Amounts recoverable on paid claims	6,547	6,097
Licence issuers receivable	3,912	4,744
Salvage operations receivable	1,679	1,822
Due from SGI CANADA	1,613	1,736
Accrued pension asset	1,113	290
Due from Saskatchewan Finance	746	–
Other	247	65
Total accounts receivable	$ 151,415	$ 124,332

Included in due from insureds is $112,372,000 (2005 - $100,197,000) of financed premiums receivable, which represents the portion of policyholders monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

6. INVESTMENTS

The carrying value and fair value of the Auto Fund's investments are as follows:

	(thousands of $) 2006		2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 34,170	$ 34,170	$ 48,474	$ 48,474
Bonds and debentures	708,041	715,298	681,593	688,340
Canadian common shares	121,509	184,812	106,289	167,192
U.S. common shares	50,419	61,159	51,546	61,707
Pooled equity fund	53,004	70,985	48,694	55,792
Mortgages	55,631	57,084	58,014	60,145
Pooled real estate fund	41,100	44,729	–	–
Income producing property	8,580	10,250	8,829	10,250
Total investments	$ 1,072,454	$ 1,178,487	$ 1,003,439	$ 1,091,900

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 4.3% (2005 – 3.1%) and an average remaining term to maturity of 108 days (2005 – 59 days). Auto Fund's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:
The Auto Fund's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Auto Fund's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio and no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	(thousands of $)			
	2006		2005	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 254,819	4.2%	$ 320,899	3.9%
After five	127,163	3.9%	73,478	4.3%
Canadian provincial & municipal:				
One or less	–	–	4,641	7.0%
After one through five	17,015	5.8%	61,388	5.2%
After five	167,497	5.0%	79,755	5.2%
Canadian corporate:				
One or less	50	7.0%	–	–
After one through five	85,690	4.7%	109,850	4.7%
After five	55,807	5.1%	31,582	5.6%
Total bonds & debentures	$ 708,041		$ 681,593	

For bonds and debentures, the fair values are considered to approximate quoted market values, based on the latest bid prices.

(iii) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.2% (2005 – 2.1%).

The Auto Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Auto Fund's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iv) Pooled equity fund:
The Auto Fund owns units in a non-North American pooled equity fund that has no fixed distribution rate. Fund returns are based on the success of the fund managers.

The fair value of the pooled equity fund is considered to approximate the quoted market values of the underlying investments, based on the latest bid price.

(v) Mortgages:
The mortgage portfolio consists entirely of Canadian commercial mortgages with an average effective interest rate of 6.3% (2005 – 6.5%) with an average maturity of 4.6 years (2005 – 4.1 years). Principal and interest is receivable on a monthly basis.

The Auto Fund's investment policy limits the maximum aggregate amount of mortgage loans to any one borrower to 20% of the total mortgage portfolio.

For mortgages, the fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vi) Pooled real estate fund:
The Auto Fund owns units in a pooled Canadian real estate fund that has no fixed distribution rate. Fund returns are based on the success of the fund manager.

The fair value of the pooled real estate fund is based on the most recent property appraisals.

(vii) Income producing property:
The income producing property consists of land and buildings in Regina, Saskatchewan with costs of $1,451,000 (2005 - $1,451,000) and $8,593,000 (2005 - $8,593,000) respectively and accumulated amortization of $1,465,000 (2005 - $1,215,000) on buildings.

The fair value of the income producing property is based on the most recent property appraisal.

7. NET INVESTMENT IN CAPITAL LEASE

The Auto Fund, as lessor, has a 63 per cent interest in a lease agreement with the Department of Saskatchewan Property Management, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The Auto Fund's net investment in the capital lease includes the following:

	(thousands of $) 2006	2005
Total minimum lease payments receivable ($995,000 per year)	$ 4,225	$ 5,220
Unearned income	(796)	(1,174)
Net investment in capital lease	$ 3,429	$ 4,046

The fair value of the net investment in the capital lease is $4,017,000 (2005 – $4,901,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

8. PROPERTY, PLANT AND EQUIPMENT

The components of the Auto Fund's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $) 2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 6,979	$ –	$ 6,979	$ 6,979
Buildings and improvements	42,433	15,912	26,521	27,749
Computer hardware, system costs and other equipment	36,174	27,749	8,425	3,427
Total	$ 85,586	$ 43,661	$ 41,925	$ 38,155

Amortization for the year is $2,758,000 (2005 – $2,564,000) and is included in administrative expenses on the Statement of Operations and Rate Stabilization Reserve. Included in computer hardware, system costs and other equipment are unamortized costs of $4,750,000 (2005 – $368,000) associated with redevelopment of the Auto Fund's information system.

9. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Auto Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the date of the Statement of Financial Position.

Factors used to estimate the provision include: the Auto Fund's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on the cost of future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $) 2006	2005 Restated (Note 3)
Injury accident benefits	$ 601,616	$ 582,470
Injury liability	90,299	97,054
Damage	71,639	67,465
Total	$ 763,554	$ 746,989

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of $387,126,000 (2005 – $389,753,000). These claims have been discounted using a rate of 4.6% to 6% (2005 – 4.3% to 6%) which reflects the expected claim settlement patterns and the Auto Fund's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development (PFAD) in the amount of $32,941,000 (2005 – $33,016,000). The incorporation of a PFAD on benefits is in accordance with accepted actuarial practice and the selected PFAD is within the ranges recommended by the Canadian Institute of Actuaries. The PFAD considers the Auto Fund's assumptions concerning claims development, reinsurance recoveries and future investment income.

The fair value of the provision for unpaid claims has not been determined because it is not practicable to do so with sufficient reliability.

(iii) Change in the estimate for the provision for unpaid claims:
The change in the estimate for the provision for unpaid claims is as follows:

	(thousands of $) 2006	2005 Restated (Note 3)
Net unpaid claims – beginning of year	$ 746,989	$ 685,318
Payments made during the year relating to prior year claims	(147,054)	(140,025)
Deficiency (excess) relating to prior year:		
Ultimate losses	(40,405)	2,531
Discounting	17,845	16,143
Net unpaid for claims of prior years	577,375	563,967
Provision for claims occurring in the current year	186,179	183,022
Net unpaid claims - end of year	$ 763,554	$ 746,989

(iv) Structured Settlements:

The Auto Fund settles some long-term disability claims by purchasing annuities from various financial institutions for its claimants. The settlements legally release the Auto Fund from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Auto Fund provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2006, no information has come to the Auto Fund's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the date of the Statement of Financial Position is $24,352,000 (2005 – $24,488,000).

10. REDEVELOPMENT RESERVE

Changes to the Redevelopment Reserve are as follows:

	(thousands of $) 2006	2005
Redevelopment Reserve, beginning of year	$ 35,000	$ –
Appropriated from (to) Rate Stabilization Reserve	(1,296)	35,000
Redevelopment Reserve, end of year	$ 33,704	$ 35,000

11. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $) 2006	2005
Interest	$ 34,590	$ 30,052
Net realized gain on sale of investments	34,740	36,495
Dividends	8,220	4,805
Income producing property, net of operating costs of $939,000 (2005 – $934,000)	862	834
Capital lease	378	436
Investment write downs	(121)	(4,943)
Total investment earnings	$ 78,669	$ 67,679

Cash inflows from the income producing property are $1,030,000 (2005 – $1,058,000).

Investment write downs by category are as follows:

	(thousands of $) 2006	2005
Canadian common shares	$ (121)	$ (2,220)
United States common shares	–	(553)
Bonds and debentures	–	(2,170)
Total investment write downs	$ (121)	$ (4,943)

12. OTHER INCOME

The components of other income are as follows:

	(thousands of $) 2006	2005
Net earnings on salvage sales	$ 5,632	$ 6,017
Payment option fees	14,597	14,159
Total other income	$ 20,229	$ 20,176

The Auto Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. Total salvage sales in 2006 are $23,523,000 (2005 - $23,607,000).

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan which allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance (note 5). The fees charged for the payment options are included in other income.

13. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2006	2005 Restated (Note 3)
Accounts receivable	$ (13,286)	$ (6,013)
Deferred policy acquisition costs	(1,977)	(764)
Prepaid expenses and inventories	(192)	196
Accounts payable and accrued charges	(2,568)	4,923
Premium taxes payable	2,002	(258)
Unearned premiums	18,673	754
Provision for unpaid claims	16,565	61,671
	$ 19,217	$ 60,509

14. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Auto Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	2006	2005
Accounts receivable	$ 928	$ 193
Deferred policy acquisition costs	12,555	11,672
Investments	10,817	13,686
Accounts payable and accrued charges	29	3,151
Premium taxes payable	28,103	26,101
Unearned premiums	2,960	2,991
Provision for unpaid claims	90	90
Gross premiums written	6,641	6,705
Net premiums earned	6,432	6,701
Claims incurred	22,958	21,991
Administrative expenses	2,832	2,791
Premium taxes	27,221	26,083
Traffic safety programs	2,444	2,609
Investment earnings	495	539

SGI acts as administrator of the Auto Fund. Administrative and claim adjustment expenses incurred by SGI are allocated to the Auto Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Auto Fund were $83,346,000 (2005 - $78,924,000) and accounts receivable are $1,613,000 (2005 – $1,736,000).

One of SGI's directors is a partner in an organization that provided professional services to the Auto Fund. During the year, these services amounted to $52,000 (2005 – $76,000) and were recorded as claims incurred in the Statement of Operations and Rate Stabilization Reserve.

Other related party transactions are described separately in the notes.

15. FAIR VALUES

The fair value of financial assets and liabilities, other than investments (note 6), net investment in capital lease (note 7) and unpaid claims (note 9) approximate carrying value due to their immediate or short-term nature.

16. REBATE TO POLICYHOLDERS

During the year, the Auto Fund issued a rebate to each of its customers who were policyholders during 2005, subject to certain restrictions. The total rebate was $44,097,000.

Subsequent to the Auto Fund's year end, a rebate was approved whereby the Auto Fund will issue a rebate cheque to each of its customers who were policy holders during 2006, subject to certain restrictions. The rebate is expected to cost approximately $100 million and will be recorded as a decrease to the Rate Stabilization Reserve in 2007.

17. COMMITMENTS AND CONTINGENCIES

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with rehabilitation for those involved in automobile accidents. The following is the funding anticipated to be provided over the next five years:

	(thousands of $)
2007	$ 12,966
2008	$ 10,500
2009	$ 10,500
2010	$ 10,500
2011	$ 10,500

The Auto Fund has contracted with consulting firms to manage and consult on a project to redevelop its information systems. The remaining commitment for services to be provided from 2007 to 2010 is $6,393,000 (2005 – $7,832,000). In addition, the Auto Fund is committed to a related party until 2010 for a telecommunications contract. At December 31, 2006 the remaining commitment is $844,000 (2005 - $1,255,000).

In common with the insurance industry in general, the Auto Fund is subject to litigation arising in the normal course of conducting its insurance business. The Auto Fund is of the opinion that this litigation will not have a significant effect on its financial position or results of operation of the Auto Fund.

18. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2005 balances have been reclassified to conform to 2006 financial statement presentation.

CORPORATE GOVERNANCE

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

GUIDELINE	SASKATCHEWAN GOVERNMENT INSURANCE
COMPOSITION OF THE BOARD	
1. The board should have a majority of independent directors.	Yes. The board of directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the board, Nancy Hopkins, is an independent director.
MEETINGS OF INDEPENDENT DIRECTORS	
3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The board of directors has meetings in-camera, during which no management are in attendance, at every board and committee meeting, as well as on an as-required basis. In addition, the board holds regular in-camera meetings where non-independent directors and members of management are not in attendance.
BOARD MANDATE	
4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	Yes. The board has approved Terms of Reference (Mandate) which explicitly acknowledge responsibility for the stewardship of the corporation.
(a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	Yes. The board has approved the Corporate values to which all employees, including the CEO and senior management, are expected to operate.

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(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The board of directors holds an annual multi-day strategic planning session. This session provides the basis of the corporation's strategic plan and initiatives, as well as direction to management in the formation of corporation's operating budget and goals. Further, the board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The board of directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The board of directors has charged the Audit and Finance committee with responsibility for this function and they report to the board on those risks at least on an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The board of directors has charged the Governance and Human Resources committee with responsibility for the corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the board.
(e) adopting a communication policy for the issuer;	Yes. The corporation has a formal communications policy which has been approved by the board of directors.
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.

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The written mandate of the board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and	Yes. The corporation also undertakes research annually on behalf of the board.
(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.	Position descriptions for directors are in the development stage and are expected to be approved and in place in 2006.
In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in *National Policy 51-201 Disclosure Standards.*	
POSITION DESCRIPTIONS 5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	Position descriptions for directors were developed and approved in 2006.
ORIENTATION AND CONTINUING EDUCATION 6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the corporation, its operations and its industry. Further, directors are educated on the role of the board, its committees and the expectation of directors. The director position description, which is in development, describes a director's responsibilities.

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7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The board provides opportunities for all directors to increase their knowledge of issues and subjects facing the corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.
CODE OF BUSINESS CONDUCT AND ETHICS	
8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	Yes. The board has adopted a written Code of Conduct for directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees.
(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.

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9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as required basis, the Human Resources committee may grant a waiver from the code.
Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s).	Not applicable.
NOMINATION OF DIRECTORS	
10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised of entirely independent directors.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor	Yes. The Governance committee's charter is contained within the Terms of Reference.

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that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:	
(a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	Yes. The Governance committee undertakes a skills assessment on an annual basis.
(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.	Yes. The Governance committee undertakes a needs assessment on an annual basis.
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance committee reviews and recommends the size of the board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	Yes. The Governance committee reports regularly to the board and when required makes recommendations. It should be noted however that director appointments are made by Order-in-Council.

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13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the board of directors and Crown Investments Corporation.
14. In making its recommendations, the nominating committee should consider:	
(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.
The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the board member responsibilities.
COMPENSATION	
15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The board has delegated the responsibilities for compensation to the Human Resources committee.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.

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17. The compensation committee should be responsible for:	
(a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;	Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews the previous corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the board.
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and	Yes. The Human Resources committee reviews and recommends to the board and Crown Investments Corporation of Saskatchewan any changes to compensation.
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	Not applicable. Individuals reporting to the CEO, which include all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14 day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the corporation is required to file an annual payee list which also contains the compensation of all members of the executive.
REGULAR BOARD ASSESSMENTS	
18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	Yes. The board conducts on a rotational basis peer assessments and reviews of the board and the chair.
(a) in the case of the board or a board committee, its mandate or charter, and	Yes. The board and its committees review their terms of reference on an as needed basis and at least every three years.
(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.	Yes. The board has a position description for directors, further, individual director's skills and competencies are reviewed as part of the regular assessments.

GLOSSARY OF TERMS

Catastrophe reinsurance	A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.
Claims incurred	The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in the provision for unpaid claims for the same period of time.
Combined ratio	A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100% there was a profit from underwriting activities, while over 100% represents a loss from underwriting.
GAAP	Generally accepted accounting principles. These are defined in the Handbook prepared by the Canadian Institute of Chartered Accountants.
Gross premiums written (GPW)	Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.
IBNR reserve	Abbreviation for incurred but not reported. A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.
Loss ratio (Claims ratio)	Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.
Motor licence issuer	A person who negotiates driver's licences and vehicle registration/insurance on behalf of the Auto Fund who receives a fee from the Auto Fund for licences placed and other services rendered.
Net premiums earned (NPE)	The portion of net premiums written that is recognized for accounting purposes as revenue during a period.
Net premiums written (NPW)	Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.
Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected from policyholders and paid to the Province. It is calculated as a percentage of gross premiums written.
Prudent person	A common law standard against which those investing the money of others are judged against.
Redundancy & deficiency	Claim reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of insurance policies that are deferred to subsequent accounting periods.

BOARD OF DIRECTORS

NANCY E. HOPKINS (CHAIR)
Lawyer, McDougall Gauley,
Saskatoon, SK
Audit and Finance Committee,
Governance and Human
Resources Committee,
Investment Committee

JOAN F.D. BALDWIN
Doctor, Regina, SK
Audit and Finance
Committee (Chair)

KENDRA CHESNEY
Information Technology
Analyst, SGI,
Regina, SK
Investment Committee

J. WALTER BARDUA
(VICE CHAIR)
Retired Insurance
Professional, Nanaimo, BC
Governance and Human
Resources Committee (Chair),
Investment Committee

MERIN COUTTS
Regional Sales Manager,
Shaw Cable Systems G.P.,
Saskatoon, SK
Investment Committee

ROBERT FENWICK
Retired Insurance
Professional, Markinch, SK
Governance and Human
Resources Committee

BOARD OF DIRECTORS

W.J.A. (BILL) HEIDT
Retired Insurance Professional, Kelowna, BC
Investment Committee (Chair), Audit and Finance Committee

ARLEEN HYND
Retired Chartered Accountant, Regina, SK
Audit and Finance Committee, Governance and Human Resources Committee

WAYNE HOVDEBO
Farmer, Birch Hills, SK
Audit and Finance Committee

JIM MILLS
Retired Insurance Broker, Licenced Realtor, Elrose, SK
Investment Committee

RON OSIKA
Retired RCMP
Former Saskatchewan Crop Insurance Executive, Mayor, Fort Qu'Appelle, Fort Qu'Appelle, SK
Governance and Human Resources Committee

NEIL HENNEBERG
Corporate Secretary, Crown Investments Corporation, Regina, SK

SGI CORPORATE OFFICERS

VICE PRESIDENTS

CHERYL BARBER
Vice President
Human Resources & Strategic Planning

EARL CAMERON
Vice President
Claims & Salvage

JOHN DOBIE
Vice President
Canadian Operations

RANDY HEISE
Vice President
Underwriting

DON THOMPSON
Chief Financial Officer

DWAIN WELLS
Vice President
Systems & Facilities

SHERRY WOLF
Vice President
Auto Fund

SENIOR MANAGEMENT

DEANNE CAIRNS
Assistant Vice President
Communications

DOUG CAMPBELL
Assistant Vice President
Injury Claims

TAMARA ERHARDT
Assistant Vice President
Human Resources & Corporate Services

DOROTHY JOSEPHSON
Assistant Vice President
Underwriting Systems & Services

ANNA LAPIERRE
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Licensing & Registration Services

LAURIE LEIBEL
Assistant Vice President
Systems

CARA LOW
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BOB LUNDY
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MAUREEN MacCUISH
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PENNY McCUNE
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Canadian Operations

BERNADETTE McINTYRE
Assistant Vice President
Driver & Vehicle Safety Services

LYLE MOSIONDZ
Assistant Vice President
Claims Rural

BRIAN MUNRO
Assistant Vice President
Corporate Controller

GRACE PARSONS
Assistant Vice President
Commercial Lines

DON PHILLIPS
General Counsel
Legal

KWEI QUAYE
Assistant Vice President
Traffic Safety Services

BETTY WEIGEL
Manager, Business Affairs
& Corporate Secretary

LORNE WHIPPLER
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